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Pensions & Investments

The Newspaper of Corporate and Institutional Investing

$9 An Issue $135 A Year

AT DEADLINE

Holland sets up own firm

Lou Holland, a partner in the investment management firm Hahn, Holland & Grossman, will leave to start his own firm June 1.

"Basically, I've been in business 23 years and decided to start my own firm," Mr. Holland said. He termed the parting with partners Donald Hahn and Kenneth Grossman "amicable."

Holland Capital Management will offer active equity and fixed-income management.

Sentinel acquires Meyer

Sentinel Real Estate has acquired Meyer Real Estate Advisors for an undisclosed sum. John H. Streicker, president and chief investment officer for Sentinel, said the acquisition gives Sentinel a West Coast office and skilled personnel for investment and management of industrial properties.

Joint venture formed

Chancellor Capital Management and London-based POSTEL Investment Management have formed a 50-50 joint venture, Chancellor-POSTEL Private Eurocapital, to manage European alternative investments, primarily for U.S. institutional investors.

Cook Inlet closes doors

Cook Inlet Investment Management Inc., San Francisco, has been told to close its doors.

Cook Inlet Region Inc., parent of the 2-year-old money management firm, decided to close it after unsuccessfully seeking a joint venture partner, said James Elder, chief investment officer. The firm managed $107 million, all from various Cook Inlet entities. No decision has been made on the assets.

Funds allocate assets

The **Minnesota State Board**

See **At Deadline** *on page 35*

INSIDE

RICHARD STERGALZ

Small-stock illusions

Small-capitalization stocks, like any investment style, have nuances all their own. And a lot of tough questions must be answered to make sure a fund is really getting its money's worth. In Commentary, Page 14.

Suits start in First Executive fiasco

Unisys, Honeywell the first targets

By Hillary Durgin

Unisys Corp. and Honeywell Inc. are facing lawsuits from defined contribution plan participants to recover losses on guaranteed investment contracts issued by units of First Executive Corp.

UNISYS

This first volley of lawsuits — eight against Unisys and one against Honeywell as *Pensions & Investments* went to press — is likely to be duplicated at other companies. The cases raise questions about investment diversification, range of investment choice and disclosure that are likely to spread beyond the $200 billion GIC market to encompass general issues of fiduciary responsibility.

Meanwhile, Congress and federal regulators are seeking ways to protect benefits for plan participants affected by the First Executive crisis.

The class-action complaints charge Unisys, Blue Bell, Pa., and Minneapolis-based Honeywell with violating fiduciary duties and disclosure requirements under the Employee Retirement Income Security Act of 1974. Executives of the companies declined comment.

"The core of all the claims against the employer plans is that they should not have invested in the first place if they had been prudent, and that they should have disinvested . . . when things deteriorated in 1988, 1989," said Seymour J. Mansfield, partner at Mansfield and Tanick, Minneapolis, which is representing Unisys plan participants in a suit filed May 9 in U.S. District Court for the Minnesota District.

Meanwhile, Sen. Howard Metzenbaum, D-Ohio, has threatened to launch an investigation of every pension plan that bought Executive Life annuities or GICs. He also plans to examine the actions of the Department of Labor and the Pension Benefit Guaranty Corp. in overseeing annuity purchases, said Michele L. Varnhagen, counsel for pensions and employee benefits for the Senate Committee on Labor and Human Resources Subcommittee on Labor.

"Executive Life is going to prove to be an example of how enforcement under ERISA may not be working," Ms. Varnhagen said, speaking at the annual meeting of the Association of Private Pension & Welfare Plans, Washington.

In April, California and New York state regulators seized two First Executive Corp. subsidiaries — Executive Life Insurance Co., Los Angeles, and Executive Life Insurance Co. of New York, Jeri-

See **Lawsuits** *on page 35*

Investors cut foreign trade costs

By Trudy Ring

International investors are beginning to use some of the same strategies — including directed brokerage, crossing systems and derivatives — employed in the U.S. equity market to reduce transaction costs.

Among the innovators are Owens-Illinois Inc., Murray Johnstone International Ltd. and State Street Bank and Trust Co. Many other pension fund executives and money managers, however, are just beginning to look at international transaction costs and trying to quantify them.

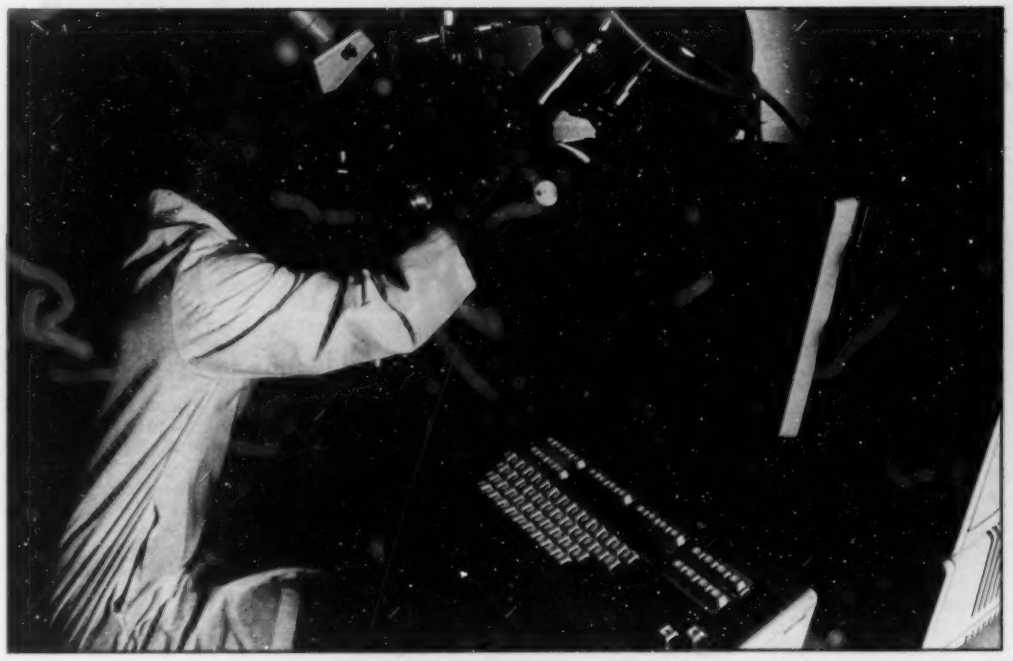
Owens-Illinois, Toledo, Ohio, has started directing a small portion of its international brokerage, while still allowing managers to work with the brokers of their choice on the majority of trading.

"We're kind of sticking our toe in the water," said Ronald C. Boller, director-benefit finance at Owens-Illinois. He noted that when trying to lower costs, it's important to avoid interfering with managers' styles and their ability to add value.

Owens-Illinois, with $2.3 billion in pension assets, has about 15% in international equities and 4% in international bonds. Mr. Boller said the fund is directing "a minor part" of its international brokerage.

Use of directed brokerage in international markets is likely to grow, as large pension investors are interested in recapturing some of their commission dollars, said Robert Kay, president of Global Securities Consulting Services Inc., New Providence, N.J.

See **Costs** *on page 34*



Dow Chemical executives now are willing to discuss with investors the issue of independent directors.

Funds finding victory in defeat

Failed resolutions lead to new talks

By Marlene Givant Star

Proxy resolutions on independent directors were defeated, but institutional investors might have won a bigger victory than the numbers suggest.

For example, Dow Chemical Co. and Waste Management Inc., which unsuccessfully fought to have such proposals omitted from their proxies, agreed to meet with shareholders to discuss the independent directors issue.

"Based on discussions we had immediately after the vote, Dow is amenable to finding a solution," said Luther Jones, manager of corporate affairs of the Florida State Board of Administration, Tallahassee, which owns 815,540 shares of Dow Chemical and sponsored the proposal at Dow.

Waste Management officials plan to meet next month with the executive board of the Council of Institutional Investors, Washington, to exchange views on the independent directors issue.

Indeed, if companies are willing to work toward picking independent directors, some investors say the funds might not need to go through the proxy process to achieve results next year.

Still, shareholder support for independent director proposals held few surprises, and was on par with other first-time corporate governance proposals.

Votes ranged from 26.1% for a proposal filed by the $48 billion New York State and Local Retirement Systems at Occidental Petroleum Corp. to 15% for Florida's resolution at Dow, a company where shareholder proposals seldom get big votes.

Poison pills got an average of 26% the first year they were introduced, according to Peg O'Hara, director of the corporate governance service of the Investor Responsibility Research Center, Washington.

Shareholder proposals tend to

See **Directors** *on page 34*

NEWS DIGEST

ANTHONY F. FICKE

Coke, which launched a $450 million investment program to build its business in eastern Germany, is one of several companies pursuing expansion in foreign markets. Page 28.

SPECIAL REPORT: CROSS-BORDER FINANCING

A dearth of global M&A activity hasn't slowed some companies from pursuing expansions of their business lines into overseas markets. Page 28.

U.S. tax law complicates financing matters for American companies with foreign units. Page 28.

FINANCING

Comdisco's private debt issue was the first in a series of offerings in which the company will raise $550 million by mid-June. Page 3.

INTERNATIONAL

Some familiar trading tactics, including crossing systems and directed brokerage, are used to control international investors' transaction costs. Page 1.

Public and midsize corporate funds spearhead a wave of activity by first-time foreign investors. Page 2.

REAL ESTATE

The cachet of the Empire State Building might help Prudential Insurance attract an all-cash buyer. Page 2.

Environmentalists' efforts to restrict timberland cutting boosts the returns of two commingled funds. Page 17.

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Funds make foreign debut

Public plans lead $660 million surge since late 1990

By Trudy Ring

A new wave of pension funds, particularly public and midsize corporate funds, has entered the international investment markets.

These first-time investors have deployed about $660 million in assets in the non-U.S. markets since late 1990. Factors fueling their moves have been a greater understanding and acceptance of international investing, good performance by international markets and, for some of the smaller funds, greater availability of pooled vehicles.

Among the public pension funds that have made their first international moves in recent months are the $34 billion New Jersey Division of Investment, Trenton; the $3.7 billion Teachers Retirement System of Louisiana, Baton Rouge; the $1.4 billion Arkansas Public Employees' Retirement System, Little Rock; the $815 million Minneapolis Employees' Retirement Fund; the $550 million San Jose, Calif., Police & Fire Department Pension Plan and the $450 million San Jose Federated City Employees' Retirement System; the $530 million Firemen's Annuity & Benefit Fund of Chicago; and the $225 million Anchorage, Alaska, Police and Fire Retirement System.

Corporate funds that have made initial international allocations include the $250 million Electronic Data Systems Corp. pension fund, Dallas; the $145 million Wisconsin Power & Light Co. fund, Madison; the $100 million MCI Communications Corp. fund, Washington; the $70 million UtiliCorp. United Inc. fund, Kansas City, Mo.; and the $30 million Morrison Inc. fund, Mobile, Ala.

Funds eyeing a move into international in the near future include the $1.4 billion North Dakota State Investment Board, Bismarck, and the $1.25 billion Nebraska State Investment Council, Lincoln. Also, the $1.8 billion Missouri State Employees' Retire-

See **Debut** *on page 34*

Pru wants cash for landmark

By Trudy Ring

Prudential Insurance Co. of America is pursuing an all-cash sale of the Empire State Building to potential buyers that include foreign investors, large pension funds and its current leaseholder.

The cachet of the building, one of the most famous and recognizable features of the Manhattan skyline, may help attract a buyer despite the poor real estate market and what some observers consider to be an unfavorable lease situation.

The building is one of the holdings of Prudential's $107 billion general account, in which the company invests its insurance premiums.

Prudential officials declined to state the value of the building or the price they expect it to fetch. Other managers and consultants, however, estimated it would bring between $25 million and $50 million.

Although Prudential would provide no financing, a buyer would be free to find financing from other sources, said John Hoffman, senior vice president of Prudential Realty Group, Newark, N.J., the insurance company's real estate adviser.

The insurer is selling the building because it wants to generate capital gains for the general account, Mr. Hoffman said. He declined to say how the proceeds might be deployed. He estimated it may take 60 to 90 days to find a buyer.

See **Empire** *on page 33*

AP/WIDE WORLD PHOTO

Purchase of the Empire State Building would be more a financial transaction than a real estate one because of a lease arrangement.

3 banks favor no BIC insurance

By Joel Chernoff

WASHINGTON — While the insurance industry has fought to eliminate pass-through insurance for bank investment contracts, it's three big New York banks that hope to gain from the provision's repeal.

That's because the provisions adopted May 14 by the House banking subcommittee on financial institutions would remove a major impediment to the big banks' ability to compete in the $200 billion investment contract market: Federal Deposit Insurance Corp. premiums of 19.5 basis points on bank deposits, soon to go up to 23 basis points.

"As long as we don't start 23 basis points behind the line, we can do without deposit insurance," said Douglas Kidd, senior vice president, Bankers Trust Co., New York.

Despite the rhetoric floating through Washington, the leading BIC issuers — Bankers Trust, J.P. Morgan & Co. and Citibank — were just as happy to shed the

See **Banks** *on page 35*

H.R. 1505's effect on pass-through insurance for pension investments in bank products

Type of plan	
Public defined benefit	Pass-through retained
Employer-directed defined contribution	Pass-through eliminated

Proposed GM issue draws investor interest

By Curtis Vosti

Institutional investors are intrigued with General Motors Corp.'s proposed special convertible preferred stock offering.

The Preference Equity Redemption Cumulative Stock, PERCS, is awaiting clearance from the Securities and Exchange Commission. It would make available 16 million shares of a special GM stock that would pay a higher dividend than the common stock and could be converted one-for-one into shares of GM common stock three years from now. Those features would give investors downside protection.

But upside potential is limited: The stock can be called by GM anytime on 15 days' notice before July 1, 1994.

"It's an interesting concept," said Michael McCowin, principal and portfolio manager at Harris Bankcorp., Chicago, which owned 1.5 million shares of GM as of Dec. 31, according to Spectrum 3, a compendium of 13(f) filings with the SEC, published by CDA Investment Technologies Inc., Rockville, Md.

"It's very much like common stock but with a buy-write strategy," he said, referring to the call feature. "Any corporate issuer who would consider preferred stock ought to consider it. It won't be very volatile."

The Teacher Retirement System of Texas will wait and see, according to George Reagan, acting chief executive officer. The $23.7 billion system owned more than 2.13 million shares of GM common as of March 31.

"We're not pathfinders. We want to see how it trades," Mr. Reagan said. "We're a public pension fund; we're not in the business of breaking new ground."

Mr. Reagan said the offering reminds him of a 1988 proposal from Avon Products Inc. that was called recently. Avon's offering, also called PERCS, was made after the firm cut its common stock dividend 50%.

GM announced its PERCS offering earlier this month, three months after it cut common stock dividends 47%.

"I think GM especially chose this because they had just cut the dividend on its common stock," said one GM analyst who asked not to be identified. "I think GM is a real test case for this type of product."

'It's a swap of yield for price appreciation," said Michael Bowyer, GM analyst for Duff & Phelps Inc., Chicago. "It's convertible to common, but only when it's in (the company's) favor. I would expect it to be called."

Mr. Bowyer said he thinks GM is looking to "entice a different type of investor," one focusing on yield, to its stock, which he said is undervalued.

Tony Kreisel, senior portfolio manager and auto analyst for The Putnam Cos. Inc., Boston, said he would recommend a blend of PERCS and common stock. "If you're going to own GM, own a little bit of this and a little bit of that."

He said although the PERCS would be considered a tactical play, it still could be a three-year investment, not too short a time for a long-term investor like pension funds.

"It should have less volatility and less downside participation because of the higher dividend yield," Mr. Kreisel said. "But it should track relatively well on the upside."

That could be the difference between the GM and Avon offerings, he said. "The Avon issue acted a little bit funny," he said. "It didn't track as well on the upside, particularly because Avon at the time of the issue was in the midst of a takeover play."

He said the Avon PERCS was not as liquid as investors would have liked. Investors wanted to own the common because it was a takeover possibility.

That will be different with the GM offering, if approved, he said.

"This is GM. No one's going to take over GM." ■

JOE WILSSENS

General Motors' proposed preferred stock would be a tactical play for some investors.

Comdisco's 3 offerings a hit

By Marlene Givant Star

ROSEMONT, Ill. — Comdisco Inc., a computer and high-technology equipment lessor, will have raised $550 million by mid-June in the public and private debt markets even though its industry has been out of favor.

The early success of the $100 million private placement of unsecured senior notes, which is scheduled to close before mid-June, paved the way for several public offerings — including Comdisco's first securitized public deal — that might otherwise have been considered too expensive given market conditions for financial service companies.

The lead investor in the private deal was CIGNA Corp., Hartford, Conn.

The placement "represented a new source of financing for us, another arrow in the quiver," said John Vosicky, senior vice president and chief financial officer of Comdisco. Whereas Comdisco frequently had issued secured, nonrecourse medium-term notes, the private deal was its first unsecured recourse borrowing.

"The market for financial services debt instruments deteriorated rapidly last year" because of bad news about the industry as a whole, said Stephen Monahan Jr., managing director-corporate finance of Continental Bank, Chicago, the placement agent.

"The spread between industrial and financial services (paper) widened tremendously," by more than 50 to 75 basis points, he said. Since then, the spreads have begun to contract, with the most improvement among AA or A rated credits. Spreads also are beginning to narrow for BBB rated credits; Comdisco is rated BBB+ by Standard & Poor's Corp., New York.

Circulation of public and nonpublic information on the company to a targeted group of investors and meetings between management and potential buyers and debt analysts were critical to the private deal's success.

Comdisco's experience illustrates how the private market increasingly is being used for the purpose it was intended. "The private placement market is becoming a market for companies that need more analysis," said Dennis P. McCrary, managing director-global trading and distribution at Continental.

In a structure it has used for many other leasing and finance companies in the past three years, Continental created a hybrid security that looked like a medium-term note, with bullet maturities of three, four and five years, and coupon rates of 8.73%, 9.02% and 9.38%, respectively. "Yet the bonds had (loan) covenants with real teeth in them," Mr. Monahan said.

Comdisco followed up the oversubscribed private deal with a $150 million four-year 8.95% senior notes offering May 15. Merrill Lynch & Co., New York, was lead manager.

The company's first $300 million AAA-rated public asset-backed deal — issued through a trust — came to market last week. Salomon Brothers Inc., New York, was lead manager.

"It's the first time we've done this in the public market," Mr. Vosicky said, noting the company did smaller securitized private placements in 1984 and 1985.

The asset-backed issue also represents the first time a senior-subordinated structure was used with high-technology lease receivables. Typically, such a structure has been used for deals backed by automobile receivables and mortgages, Mr. Vosicky said.

The coupon on the securitized issue will be less than 8%, he said.

Proceeds will be used to pay down short-term debt. Proceeds of the private deal will be used to refinance short-term debt and purchase equipment for lease, specifically IBM Corp.'s new line of Summit high-powered mainframe computers.

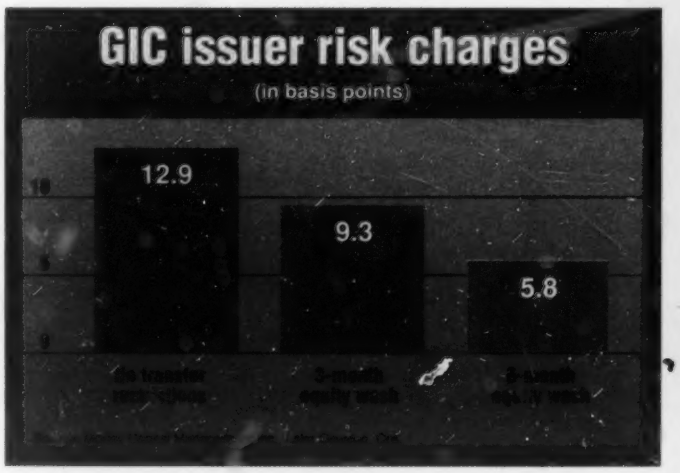
When Comdisco started looking at financing options in February, "the private market seemed to be a little more aggressive in terms of pricing" than the public market, Mr. Vosicky said. Otherwise, Comdisco might have borrowed under its medium-term notes program.

The private issue provided Comdisco with a frame of reference against which to evaluate the pricing of a public bond offering. In addition, the success of the private deal allowed spreads to narrow even further on Comdisco's subsequent public deal, Mr. Vosicky said.

Private deals typically trade at 10 to 15 basis points over public deals, but Comdisco's was only five to 10 points over that of the $150 million public offering.

Comdisco had net earnings of $23 million on record revenue of $580 million for the quarter ended March 31. But because of the

See **Comdisco** *on page 35*



Plan sponsors eye new 401(k) options

By Curtis Vosti

Plan sponsors are taking a second look at their 401(k) investment options since California shut down Executive Life Insurance Co. and First Capital Life Insurance Co.

In doing so, they are learning that adding choices to the 401(k) plan often subtracts from guaranteed investment contract returns.

Trustees of the $50 million 401(k) plan at Reynolds + Reynolds, Dayton, Ohio, which did not contract with the seized insurers, are considering three options.

Craig Currier, director of pension administration, said the board will consider keeping the GICs — which comprise 80% of the assets — but maintaining a sharp eye on credit quality; investing new money and assets from maturing GICs in a blend of GICs and U.S. government obligations; or starting a money market fund.

Mr. Currier said the blended option will produce returns of between 60 and 75 basis points less than the pure GIC portfolio and will result in participant statements with investments marked to market instead of by the familiar book-value accounting of GICs.

"They aren't going to realize an unrealized gain, and that can be confusing for participants," he said.

The money market choice, he said, is "too radical a move" be-

See **GICs** *on page 33*

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Markowitz to speak at P&I conference

Harry Markowitz, co-recipient of the 1990 Nobel Memorial Prize in Economics, will be a keynote speaker at *Pensions & Investments*' second annual Investment Management Conference.

Mr. Markowitz, professor of finance at Baruch College of the City University of New York, will speak during lunch on the second day on whether the Efficient Market Theory needs to be updated.

The keynote luncheon speaker on the first day will be Steven Einhorn, partner of Goldman, Sachs & Co. He will give an investment outlook and portfolio strategies.

Other conference topics and speakers include:

• Peter Aldrich of Aldrich, Eastman & Waltch Inc. will moderate a panel on whether real estate is fatally wounded.

H. Markowitz

The panel comprises Robert Angelica of American Telephone & Telegraph Co., Leslie Smith Britto of Trans World Airlines Inc., John Carroll of GTE Investment Management Corp., Paul Lowman of ASB Capital Management Inc. and Kincaid Patterson of BellSouth Corp.

• Capital Guardian Trust Co.'s John H. Seiter will lead a group discussion on the appropriate exposure to international investments and which markets and trends to follow.

Other speakers will be Teresa Goodale of AT&T, Steve Crosby of U S WEST Inc. and Mauricia Geissler of SEI Capital Resources Co.

• BARRA's Andrew Rudd will head up a session on whether there is anything new in asset allocation.

William Fouse of Mellon Capital Management Corp. and Robert Haugen of the University of California-Irvine will be the two panelists.

The conference is being held June 19 and 20 at The Park Hyatt, Washington. ■

If you thought only stocks and bonds offered yield,

watch this.

Goldman Sachs Commodity Index

The Goldman Sachs Commodity Index (GSCI) is the first benchmark designed to reflect the yield potentially available through the trading of commodities.

For, like stocks and bonds, commodities have total returns made up of price movement *and* yield.

By measuring total return, the GSCI provides a commodities benchmark that is comparable to the standard stock and bond indices.

This allows participation in the commodity markets — through direct trading or a managed account program — in order to achieve a balanced portfolio.

By all means, watch the GSCI daily on Reuters page GSCI.

Goldman Sachs

CORRECTIONS & CLARIFICATIONS

• A May 13 article should have said **Cubic Corp.** has $25 million of its cash portfolio in preferred stock and is looking at dividend capture strategies offered by Twenty-First Securities Corp.

• **Vinnie Princiotta** joined Elkins/McSherry Co., New York, as managing director-equity trading. Mr. Princiotta's name was misspelled in a story May 13.

• The following profile was omitted inadvertently from the May 20 Money Manager Profiles issue.

Resource Investors Management Co.
22 Waterville Road, Avon, Conn. 06001; (203) 678-8100

Total assets managed	$250,000,000
Total discretionary	$240,000,000
Total tax-exempt assets	$107,000,000
Total discretionary tax-exempt	$107,000,000
Tax-exempt clients	12
Types of accounts managed	CEF
Minimum separate account	$10,000,000
No. of portfolio managers	5
Size of research staff	5

Resource Investors Management Co. specializes primarily in oil and gas activities.

Investments are made in secured debt securities with equity participations and join venture exploration and development programs.

The tax-exempt asset mix Jan. 1 was 10% bonds and 90% oil and gas limited partnerships.

John Parsons and Roy Hood are client contacts.

• **Metropolitan Life Insurance Co.** was omitted from the May 20 listing of the 25 largest managers of 401(k)/457 plan assets. The insurer, with $10.1 billion, would have ranked third, boosting the total to $149.831 billion.

WASHINGTON

Restoring state damages laws draws businesses' ire

■ Pending legislation would resurrect state punitive damages laws against insured benefit plans that unfairly deny workers their claims.

The legislation would reverse a 1987 Supreme Court decision, Pilot Life vs. Dedeaux. In its decision, the high court held the Employee Retirement Income Security Act of 1974 pre-empts state laws setting insurance-industry standards for health benefit claims, including state-level punitive damages provisions.

The effect of the ERISA preemption has been to permit insurance companies to deny health insurance claims with impunity, Sen. Howard Metzenbaum, D-Ohio, said at a recent Senate Labor subcommittee hearing. Sen. Metzenbaum has introduced The ERISA Preemption Amendments of 1991, S. 794. A similar bill, H.R. 1602, was introduced by Rep. Howard Berman, D-Calif., in the House.

Self-insured plans would not be affected by either bill in their present forms.

The bills have garnered significant opposition from business. The health insurance industry maintains the potential risk of punitive damage awards would limit their ability to provide affordable group policies, which would increase the nation's uninsured.

The U.S. Chamber of Commerce also opposes the bill, fearing it would increase litigation costs for small employers.

TOM REED

Sen. Howard Metzenbaum's bill is opposed by the health insurance industry and the U.S. Chamber of Commerce.

REAL ESTATE

Falling values offset realty income

■ The income return from real estate continues to be swallowed up by falling property values, according to the Russell-NCREIF Property Index.

For the year ended March 31, the index reported a barely positive total return of 0.4%.

For the year, the property index reported an income return of 6.7%. But the falling market value of properties for the year, −6.34%, almost equaled the income.

For the first quarter of 1991, the index reported a total return of −0.19%. The previous quarter, the index also had a negative total return, with −1.63%.

There are 1,506 properties in the index with an appraised value of $22.2 billion.

PROXIES

SEC getting closer to proxy reform

■ The Securities and Exchange Commission is inching its way toward its long-awaited overhaul of its proxy voting rules.

The latest gleaning of the SEC's intentions came April 23, when SEC Chairman Richard C. Breeden asked the House Telecommunications and Finance Subcommittee to hold off on legislation regulating "roll-ups" of limited partnerships. In a roll-up, a number of limited partnerships are merged into a single publicly traded entity, but investors have complained their rights have been abused in the process and they have suffered losses.

The connection between roll-ups and proxy reform is that The Limited Partnership Rollup Reform Act of 1991 "would make it difficult for us to frame uniform rules governing proxy and tender offers for corporate as well as partnership entities," Mr. Breeden said in his testimony before the House panel.

The bill, H.R. 1885, he complained, would establish specific rules for roll-ups while the SEC is trying to take a broader view in its proxy reform project.

R. Breeden

The SEC already is considering easing rules restricting communications among investors as part of its proxy reform, Mr. Breeden said. In addition, the commission is contemplating making access to shareholder lists much easier for other investors.

INTERNATIONAL

Countries down under finish on top

■ New Zealand and Australia had the world's best-performing stock markets in April, both in local currency and U.S. dollar terms, according to Morgan Stanley & Co.

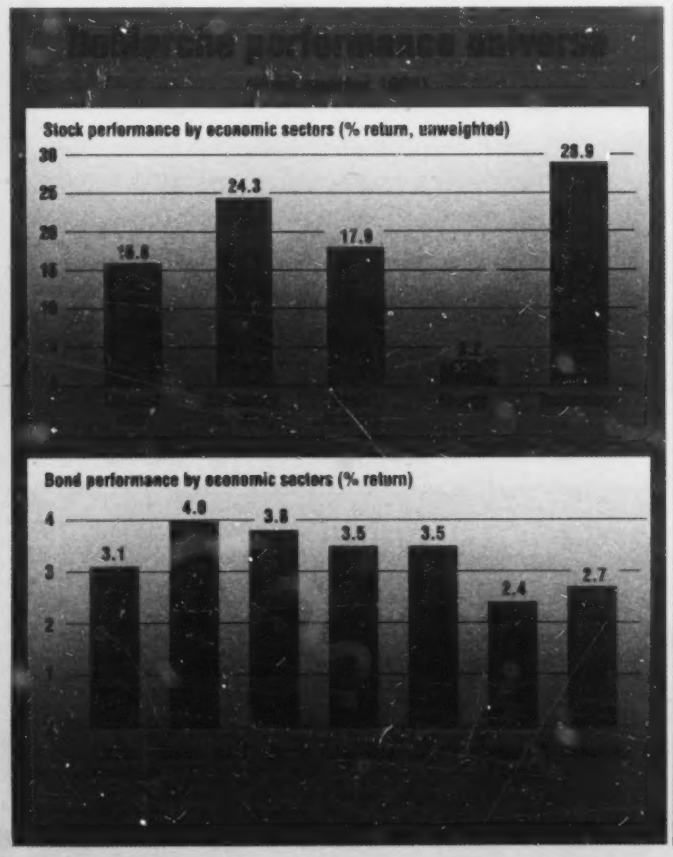
New Zealand's market was up 8.2% in local currency and 8.4% in U.S. dollars; Australian stocks rose 6.8% in local currency and 7.6% in U.S. dollars.

The MSCI World Index rose 0.2% in terms of its component currencies and 0.6% in dollars. The MSCI Europe Australia Far East Index rose 0.3% in component currencies, 0.8% in dollars.

Germany had the third best performance, with a 5.6% gain in deutsche marks and 3.3% in dollars, but Europe overall had lackluster performance, depressed further by the strong dollar. European markets rose 0.7% in local currencies and declined 1.3% when converted to dollars.

The four worst-performing markets for the month were all in Europe — Spain, down 3% in local currency and 5.1% in dollars; Norway, down 3.8% in local currency and 6.5% in dollars; Finland, down 4.5% in local currency and 5.6% in dollars; and Sweden, down 4.9% in local currency and 6.2% in dollars.

Far Eastern markets were up 2.3% in dollar terms for the month, largely because of the yen's rebound; the markets were down 0.4% in local currency terms.



PEOPLE

Bonding sets ties to new employer

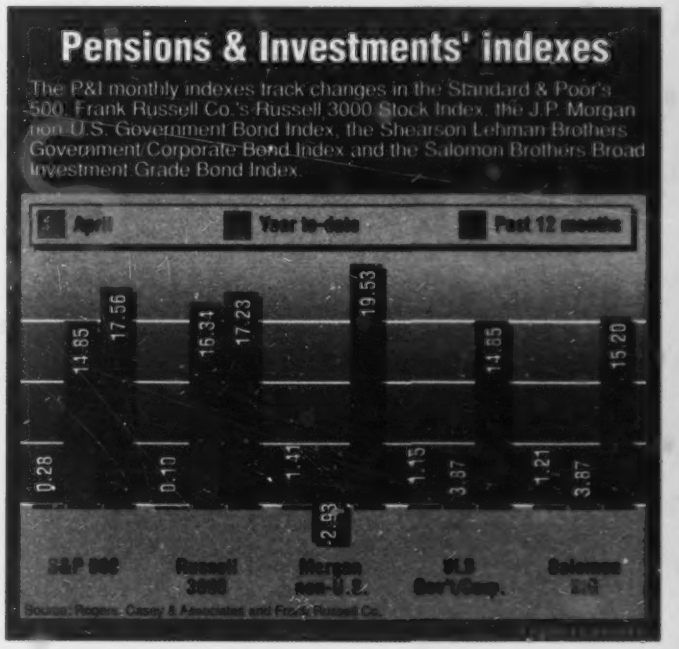
■ International investment marketer Karin Bonding sees the future of the business trending toward the quantitative — so that's where she's directed her career.

Ms. Bonding has joined the quant-oriented PanAgora Asset Management, Boston, to head international product sales. She will move to Boston from London, where she had been assistant director of marketing and client servicing for Lombard Odier Holdings Ltd. for five years.

A few months ago, her job had been cut by Lombard Odier's downsizing program; after that happened, it was a matter of taking the time to find the right job, not just any job, she said.

She settled on PanAgora because of their investment approach: "For the '90s, I believe that more quantitatively oriented management firms will be more successful in gaining new business."

Ms. Bonding, whose position represents an expansion for PanAgora, will be a liaison with pension fund consultants and will be responsible for PanAgora's overall marketing plan for international investment strategies.



LITIGATION

Court recalculates Grace penalty

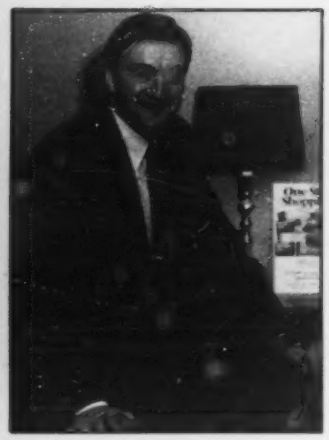
■ Grace Capital Inc. and its chief executive officer, H. David Grace, must pay the Fur Manufacturing Industry Retirement Fund about $1.4 million in damages for violating the fund's investment guidelines.

The U.S. District Court for the Southern District of New York brought the 5-year-old litigation to a close by recalculating the damage figure. Grace had challenged a $1.5 million damage figure awarded in September 1989.

The court had found that Grace had exceeded the fund's 50% equity ceiling by an average of nearly 20 percentage points during a 16-month period in 1983 and 1984. The fund lost $4.3 million plus another $355,000 by the time the account was liquidated.

MONEY MANAGERS

Horn hopes Freedom helps his pursuit of happiness



B. Horn

■ Money manager Bernard Horn and Freedom Capital Management Corp. have made a mutually beneficial match.

Mr. Horn, in merging his small international/global equity firm with Freedom Capital, Boston, is gaining the resources of a large organization; Freedom Capital is gaining Mr. Horn's international investment expertise.

Mr. Horn said he has been frustrated to see his firm, Horn & Co., make it to the finals in manager searches only to lose to larger firms. The Cambridge, Mass., firm has $15 million under management, of which $5 million is tax exempt. It was an early entrant into foreign investing. When it was founded in 1980, there were fewer than 30 U.S. firms offering international; today, there are more than 160.

Freedom Capital has not run international or global separate accounts to date, although it has global equity, bond and short-term mutual funds. Mr. Horn, as a vice president of Freedom Capital, will run international/global equities in separate accounts and consult to the global equity mutual fund managers. Freedom Capital has $3.5 billion under management, of which $2.6 billion is in mutual funds; of the $900 million in separate accounts, about $500 million is tax exempt.

Horn & Co.'s clients will become clients of Freedom Capital, and two other Horn & Co. professionals — Kristin J. Weisker and Khaijan I. Ratulangie — will become international equity analysts at Freedom Capital.

PEOPLE

Hopkins signs on with Kemper unit

■ Paul C. Hopkins joined Kemper Investment Management Co. Ltd., London, as managing director and head of international equities, a new position.

Mr. Hopkins previously headed the European equities team and was responsible for asset allocation at Bankers Trust Investment Management Ltd., London.

Bankers Trust Investment Management is in a search for a chief investment officer, a new position; the chief investment officer likely will take over these responsibilities as well, said Jonathan Lubran, managing director.

Kemper Investment Management manages $664 million; it has no U.S. tax-exempt clients yet.

P. Hopkins

WASHINGTON

IRS selects 11 cases to test waters

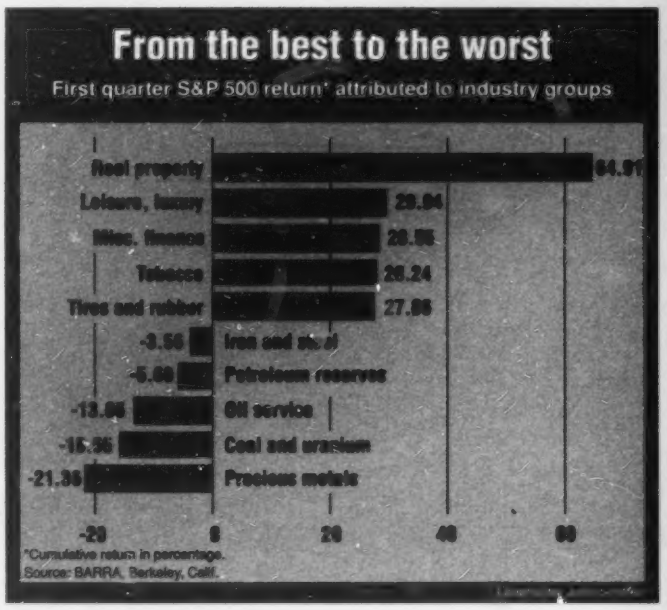
■ The Internal Revenue Service is litigating 11 key cases to test its authority to set actuarial assumptions and methodologies for pension plans.

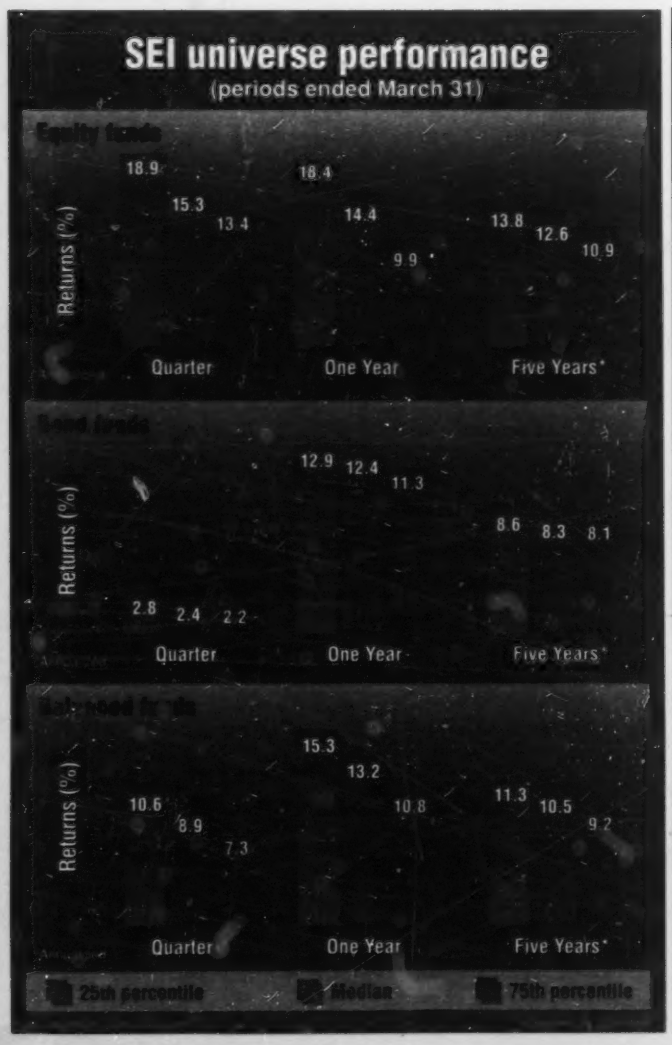
The IRS' actuarial litigation project stems from its small-plan audit program. That program was designed to audit about 18,000 plans with five or fewer participants for making excessive contributions between 1986 and 1988. Now, however, the IRS has scaled back its effort to examining less than 12,000 after it "found fewer cases of abuse than originally anticipated," John Burke, IRS assistant commissioner for employee plans and exemption organizations, wrote in an April 3 letter to Rep. Nancy Johnson, R-Conn.

Differences between the IRS and actuaries over funding assumptions will be sorted out in the test cases. The basic issues stem from an IRS memo ordering agents to challenge retirement assumptions below age 65 and interest rate assumptions less than 8%. The court also will scrutinize IRS challenges to the use of the unit credit funding method.

Two cases involving law firms — Vinson & Elkins and Wachtell, Lipton, Rosen & Katz — will be heard Jan. 6 in the U.S. Tax Court, while nine other cases have been consolidated and will be argued Feb. 3.

That process, however, might drag on for two to three years, as cases go through argument and appeal stages, said Chester Salkind, executive director of the American Society of Pension Actuaries. In the meantime, the IRS is looking to settle with plan sponsors, Mr. Burke wrote.





SOFTWARE

Package assists global operations

■ Five multinational corporations are using a new software package to manage their international treasury operations.

Halliburton Co., Hoffmann-LaRoche Inc., WPP Group Ltd., Axel Johnson Inc. and I.M.S. International Inc. are using Treasury Control, developed by IMRS Inc., Stamford, Conn.

Betsy Cormany, director of treasury products at IMRS, said the software is designed to be used for global balance reporting in multiple currencies, short-term portfolio management, lending between headquarters and subsidiaries, credit management and bank relationship management. It also supports foreign exchange hedging in cross-currency rates.

Such functions previously were available only through proprietary bank software, she said.

The system, which runs on networked PCs, provides automated data collection of treasury and banking operations, then is consolidated for management analysis and reporting.

"The system helps treasurers to better identify and minimize risk and to analyze sources and uses of funds in order to maximize return on investments and reduce costs of funds," Ms. Cormany said.

Manual entry of financial data from subsidiaries is eliminated because international locations and headquarters are connected on a real-time basis, she said.

The headquarters site license for Treasury Control is $65,000.

CASH MANAGEMENT

Fed pushes short-term rates lower

■ The median short-term manager's portfolio returned 7.25% during the first quarter as Federal Reserve actions pressed short-term interest rates down sharply, a Yanni-Bilkey survey shows.

Three months earlier, the median manager in the Yanni-Bilkey short-term CA$H universe returned 8.12%.

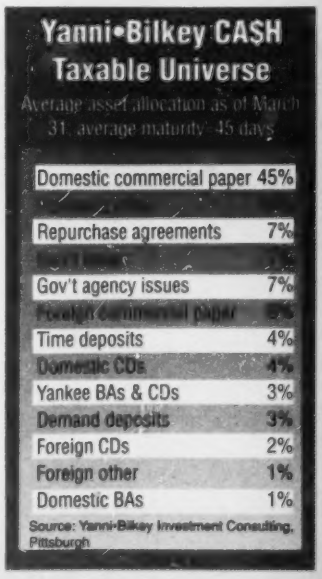
Managers in the survey increased the average maturity in their portfolios to 45 days, from 44 at the end of the year.

Top-performing managers, however, decreased their average maturity to 54 days from 66. (Their returns dropped to 7.66% at the end of the quarter from 8.45%.) "This material decrease in average maturity is indicative of a more defensive posture," said Bob Beck, director of institutional marketing at Yanni-Bilkey. "There seems to be mixed signals about any additional easing by the Federal Reserve."

First-quarter results coincided with an announcement by Yanni-Bilkey that it has completed several enhancements of its short-term portfolio analysis system.

The CA$H data base now covers assets of more than $200 billion managed in 240 funds by about 125 short-term asset managers, more than double the initial data base when it was launched two years ago. The CA$H system also generates reports on the data base for the trailing one- and three-month periods, year to date and one-, four- and five-year periods.

The CA$H system provides information on managers by style, asset quality, investment types and maturity schedule.



Returning to the limelight

Bank, small-cap stocks flourish during the 1st quarter

By Sabine Schramm

Bank and small-capitalization growth stocks surged in the first quarter, posting impressive gains for commingled equity funds while the bond market remained flat.

Bank stocks, a bargain at the end of 1990, snapped back after a year of uncertainty. "They were so beat up last year," said Robert Fenwick, vice president of investments at the Second National Bank, Warren, Ohio. "They got so cheap, we had some going and bought some more. They helped performance tremendously," he said, noting all banks were up nicely, some as much as 50%.

After seven years of underperformance, small-cap stocks experienced a six-month resurgence relative to the Standard & Poor's 500 Stock Index. The S&P returned 24.8% for the six months ended March 31, compared with a 36.2% increase for the Russell 2000.

"The trend for small-cap stocks will continue," said Art Samberg, president of Dawson-Samberg Capital Management, Southport, Conn., and general partner of Pequot Partners Fund L.P., which manages the Growth Pequot Partners Fund. Mr. Samberg said the trends that promoted big company growth in the '80s have been reversed.

Sparked by last year's fourth quarter rally, the average equity fund posted a solid gain for the quarter ended March 31. Insurance company and bank commingled equity funds in the Pensions & Investments' Performance Evaluation Report universe showed a median return of 14.7% for the quarter and 14.28% for the year. The median investment counselor in the PIPER+ equity universe returned 16.87% for the quarter and 14.23% for the year.

The S&P 500 returned 14.53% for the first quarter and 14.44% for the year ended March 31.

With a relatively inactive bond market, PIPER+ median commingled fixed-income accounts returned 2.56% for the quarter and 12.22% for the year, while the Shearson Lehman Brothers Government/Corporate Bond Index returns nearly at the same level during the quarter and year with 2.69% and 12.5%, respectively.

The PIPER and PIPER+ reports are compiled by Rogers Casey & Associates, Darien, Conn.

Equity leaders among PIPER commingled equity accounts for the quarter were Provident Mutual Life Insurance Co.'s Separate Account 7, with a return of 31.67%; Second National Bank's Employee Benefits Fund, 31.09%; and Wells Fargo-Nikko Investment Advisors' Micro Cap Market Fund, 30.97%.

Among PIPER+ leaders were Dawson-Samberg Capital Management's Growth Pequot Partners Fund, with a return of 50.9%; Montgomery Asset Management's Small Cap Growth Fund, 40.14%; and Equitable Capital Management Corp.'s Special Growth Fund, 39.26%.

PIPER fixed-income funds leading the quarter were Connecticut Mutual Life Insurance Co.'s Dimension Fund, with a 14.1% return; Keystone Investment Management's Key Convertibles Fund, 12.56%; and Connecticut Mutual's Convertible Securities Fund, 11.20%.

In the PIPER+ universe, W.R. Huff Asset Management's fixed-income account was the top performer for the quarter with a 19.6% return, followed by Houlihan, Lokey, Howard & Zukin Investment Management's Quantitative Fund I, 18.36% and Bell Capital Management Inc.'s Managed Bond Fund, 14.7%.

The market rally for small-cap stocks began in the fourth quarter of 1990, but bank stocks suffered badly from economic trends and lack of public confidence through the end of the year. Though not in the same situation as savings and loans, banks felt the effects of high interest rates, the downturn in the real estate market and bank failures.

Banks have started up from a low point, said Mr. Fenwick, who manages Second National Bank's equity, growth and fixed-income funds that are included in the PIPER universe. "We loaded up on them at the right time."

Among the bank stocks held by the fund are **Ameritrust Corp., Barnett Banks Trust Co., First Fidelity Bancorp** ... d **C&S/Sovran.**

Second National's equity account also holds big-name growth stocks such as **Corning Inc.** and **General Electric Co.**, intermixed with cyclicals.

Small-cap growth managers, who performed best for the quarter, looked for unique situations in small companies that had not been recognized by the market.

Dawson-Samberg's Growth Pequot Partners fund is a hedge fund. Of the stocks it handles, 75% have a market capitalization of $500,000 or less. The fund looks for turnaround growth emerging companies and early-stage pre-emerging growth stocks or "companies the market has given up on," said Mr. Samberg.

Both Montgomery Asset Management's Small Cap Growth fund and Equitable Capital's Special Growth fund had strong exposures to health care and biotech stocks. ■

PIPER+ fixed-income funds

Periods ended March 31

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
First quartile	2.98	13.09	10.20	9.17	13.90
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Third quartile	2.16	11.12	9.10	8.20	12.59
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SLB G/C	2.69	12.50	9.68	8.29	13.02

PIPER+ equity funds

Periods ended March 31

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
First quartile	22.22	20.51	19.18	14.82	18.07
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Third quartile	13.86	10.12	13.28	10.76	15.01
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S&P 500	14.53	14.44	17.21	13.25	15.34

PIPER+ special equity funds

Periods ended March 31

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
First quartile	21.91	15.03	15.57	12.03	15.45
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Third quartile	10.90	6.34	6.81	6.88	13.13
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S&P 500	14.53	14.44	17.21	13.25	15.34
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PIPER equity funds

Periods ended March 31

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
First quartile	17.25	18.57	17.42	13.22	15.88
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Third quartile	12.89	10.33	13.66	10.38	13.49
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S&P 500	14.53	14.44	17.21	13.25	15.34

PIPER special equity funds

Periods ended March 31

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
First quartile	30.49	25.63	19.26	13.42	16.35
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Third quartile	19.61	6.86	10.90	8.11	11.82
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S&P 500	14.53	14.44	17.21	13.25	15.34
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Environmentalists at root of funds' success

By Steve Hemmerick

Environmentalists' efforts to restrict the cutting of America's timberlands has helped propel two commingled timberland investment funds to the peak of the real estate performance charts and to magnify pension fund interest in timber.

John Hancock Timber Resource Group's ForesTree I fund, a closed-end fund, racked up a 15.5% total return for the year ended Dec. 31.

That return was more than nine times greater than the 1.65% median total return for closed-end commingled real estate funds in that period.

Meanwhile, John Hancock's Separate Accounts open-end fund returned 12.8% for 1990, seven times as great as the open-end median total return of 1.8% for the same period.

Both commingled funds scored the highest total returns in their respective categories for 1990.

What is happening to timberland is just the reverse of what has happened to most commercial real estate: The supply — in this case of timber tracts available for cutting — is dwindling while demand is holding steady.

Timber cutters have depended upon vast public lands in the Pacific Northwest for supplies of timber in addition to privately owned forests, said Scott Jones, a manager of forest operations with Boston-based John Hancock.

But environmentalists worried about the possible extinction of the spotted owl and America's supply of wilderness have been successfully pressuring state and federal agencies to shut off supples of publicly owned timber to woodcutters.

The declining supply of timber has closed wood mills and thrown hundreds of woodcutters out of work, but, said Mr. Jones, it has made forests in the hands of private interests more valuable.

Just as environmentalists score victory after victory over timber cutters and shrink the supply of available timber for cutting, institutional investors have intensified their interest in timber investments.

Although investors have reduced their interest in real estate in general because of poor returns, John Hancock signed up a $50 million direct separate account with an institutional investor in 1990 for investment in timber, and John Hancock is just about to close its second closed-end timber fund, ForesTree II, with $100 million to buy more timberland.

Many other investors, not yet putting up money, are studying timber investments, said Mr. Jones.

The $17 million ForesTree I and the $875 million John Hancock Separate Accounts fund both invested in timber in the Pacific Northwest and the Southeast.

The second best performing closed-end fund was INVESCO Realty Advisors' Institutional Mortgage Fund II. The $25 million fund returned 14.7% for 1990.

David Ridley, a principal with Dallas-based INVESCO, said the high return resulted from increases in value and higher rents on properties for which the INVESCO fund has participating mortgages. Most of those properties are in Florida, Texas, Rhode Island, Missouri and Tennessee.

Equitable Real Estate Investment Management's HPFI fund had the third best performance for 1990 among closed-end funds. It had a total return of 10.4%.

The $371 million fund invests in a regional mall and office buildings, primarily in Hawaii. "Hawaii is one of the best office markets right now," said Jonathan Miller, a vice president with Equitable Real Estate, New York.

The Aldrich, Eastman & Waltch/State Street Real Estate I fund of State Street Bank and Trust Co., Boston, scored the fourth highest total return, 9.7%, and Dallas-based Lehndorff & Babson Real Estate Counsel's Property Fund III, scored the fifth highest total return, 9%, for closed-end funds for 1990.

The second best performing open-end fund for 1990 was Prudential Real Estate Investors' Union Mortgage Account. It scored a 10.3% total return.

The $143 million fund invests in straight mortgages in office, retail and industrial buildings built with union labor, said Scott Peterson, director of public relations for Prudential Real Estate, Newark, N.J.

The buildings in which the fund has investments, said Mr. Peterson, are quality properties that are 90% leased.

The third best open-end fund performance for 1990, 7.3%, came from Washington-based Union Labor Life Insurance Co.'s Mortgage Separate Account J.

Group Trust V of JMB Institutional Realty Corp., Chicago, scored the fourth best total return performance, 6.7%, and JMB's Endowment IV fund scored the fifth best total return, 6.6%, for 1990. ■

Top decile PIPER commingled fixed-income funds

3-month returns

	%
Connecticut Mutual (Dimension)	14.1
Keystone Invst. (Convert.), Pa.	12.6
Connecticut Mutual (Convert.)	11.2
Imperial Trust, Calif.	5.3
PW Trust (Conserv.), N.J.	5.1
Capital Trust, Ore.	4.6
The Phoenix (Mgd.), Conn.	4.6
Indiana Invst.	4.6
Penn Mutual Life (S.A. C), Pa.	4.6
Sunburst Bank, Miss.	4.6
Northern Trust, Ill.	4.2
First Nat'l of Amarillo, Texas	4.2
Security Nat'l (II), W. Va.	4.0
Life of Virginia	3.9
Wheeling Dollar Bank, W. Va.	3.9
Lake Shore Nat'l, Ill.	3.9
Beverly Trust, Ill.	3.9
NBD Trust, Ill.	3.8
Transamerica (S.A. T2), Calif.	3.7
Cullen Bank, Texas	3.6
Union Central, Ohio	3.5
Puget Sound Nat'l, Wash.	3.5
Aetna Life (Inc. shares), Conn.	3.5
Sovran Capital, Va.	3.5
Provident Capital, Pa.	3.4
Comerica, Mich.	3.4
Mutual of New York (Public)	3.3
Princeton Bank, N.J.	3.2
SLB G/C	**2.7**

1-year returns

	%
Life of Virginia	15.2
Lincoln Nat'l (Long), Ind.	15.0
Commerce Bank, Mo.	15.0
PW Trust (Conserv.), N.J.	14.9
Connecticut Nat'l	14.9
NCNB Texas (MBS)	14.6
Boatmen's Trust (F), Mo.	14.4
Morgan Guaranty, N.Y.	14.4
Ameritrust (RT GNMA), Ohio	14.2
U.S. Trust Co. of New York	14.1
Chase-CMB (Sec. mtg.), N.Y.	14.0
Penn Mutual Life (S.A. C), Pa.	13.8
J.P. Morgan (Tactical dur.), N.Y.	13.8
Transamerica (S.A. 13.8), Calif.	13.8
New York Life (S.A. 4)	13.6
Aetna Life (In. shares), Conn.	13.5
Wellington Trust (Enhan.), Mass.	13.5
Metropolitan Life (S.A. 41), N.Y.	13.5
Nat'l Bank of Detroit	13.4
Northern Trust, Ill.	13.3
Shawmut Bank, Mass.	13.3
Comerica, Mich.	13.3
First Nat'l of Maryland	13.3
IAA Trust (B), Ill.	13.2
Fidelity Bank, Pa.	13.1
NCNB Nat'l, N.C.	13.1
Continental Capital, Ill.	13.1
SLB G/C	**12.5**

5-year returns

	%
Transamerica (S.A. T2), Calif.	11.2
Meridian, Pa.	11.1
General American (S.A. 6), Mo.	10.3
Mutual of New York (Priv. place.)	10.0
Bankers Trust (Mtg. pass.)	10.0
Morgan Guaranty, N.Y.	9.9
General American (S.A. 9), Mo.	9.9
First Nat'l of Amarillo, Texas	9.8
Beverly Trust, Ill.	9.8
Sanwa Bank (C), Calif.	9.8
Aetna Life (Inc. shares), Conn.	9.7
IAA Trust (B), Ill.	9.6
Pacific Financial, Calif.	9.5
Mercantile Safe, Md.	9.5
The Principal, Iowa	9.5
Trust Services of America, Calif.	9.4
Marinvest, N.Y.	9.4
Keystone Invst., Pa.	9.4
Harris Trust, Ill.	9.3
Cullen Bank, Texas	9.3
First Interstate (Mgd.), Calif.	9.3
First Nat'l of Maryland	9.3
Connecticut Nat'l Bank	9.3
Trustmark Nat'l, Miss.	9.3
LaSalle Nat'l (Gov't/mtg.), Ill.	9.2
IDS Trust (Pooled GIC)	9.2
SLB G/C	**8.3**

10-year returns

	%
Transamerica (S.A. T2), Calif.	16.5
Meridian, Pa.	15.6
United Capital, Colo.	15.2
Boatmen's Trust (F), Mo.	14.9
IAA Trust (B), Ill.	14.7
Life of Virginia	14.5
First Kentucky Trust	14.4
Mutual of New York (Priv. place.)	14.3
Sovran Capital, Va.	14.3
Beverly Trust, Ill.	14.3
Connecticut Nat'l Bank	14.3
Pacific Financial, Calif.	14.3
Trust Services of America, Calif.	14.2
Sanwa Bank (C), Calif.	14.2
ASB Capital, D.C.	14.1
First Nat'l of Amarillo, Texas	14.1
Society Nat'l, Ohio	13.9
SLB G/C	**13.0**

We don't use smoke and mirrors. Instead we use thorough research, seasoned investment skill, proven administrative ability, and hard work to handle Guaranteed Investment Contracts. The result is MaGIC – the Managed GIC fund from Ameritrust.

MaGIC is a collective fund of GICs, and it can take a big responsibility off the shoulders of employee benefit managers and company CFOs.

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You can reduce overhead costs associated with researching, buying, and managing GICs – time and labor intensive tasks often requiring dedicated company personnel.

You can also rest assured that buy decisions are made on an investment-driven basis rather than on the timing of individual contract maturities, thus maximizing the return to your plan participants.

And you can rely on greater stability of yield plus reduced risk of principal that stem from a large pool of diversified contracts with high credit quality.

MaGIC maintains daily liquidity at the participant level, allows book value payments within 12 months for plan sponsor withdrawals, offers easy access to fund managers, and requires no minimum deposit. The fund is managed in strict compliance with ERISA guidelines and is available to all qualified employee benefit plans.

So if the complexities of GICs have given you a few worries, contact Ameritrust.

HOW WE MANAGE TO MAKE YOUR GIC WORRIES DISAPPEAR WITH MAGIC.

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For current yield, call Ameritrust in Texas, Indiana, or Ohio.

An investment in the MaGIC Fund is not insured by the FDIC.

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Indiana 317-464-8307 • Indianapolis • Elkhart • Kokomo • Sturgis, Michigan
Ohio 216-737-8450 • Cincinnati • Columbus • Cleveland

Top decile PIPER commingled equity funds

3-month returns

	%
Provident Mutual (S.A. 7), Pa.	31.7
Second Nat'l Bank, Ohio	31.1
Wells Fargo (Micro cap.), Calif.	31.0
Bankers Trust (Russell 2000)	29.6
Travelers Cos. (S.A. 2000), Conn.	29.6
Pacific Financial (Sm. cap.)	29.5
Merus Capital (Sp. growth), Calif.	20.2
Union Central, Ohio	26.8
New York Life (S.A. 1)	26.7
Bank of the West, Calif.	26.3
Chancellor (Styleshift), N.Y.	25.9
Norwest Bank, Minn.	25.2
Union Nat'l-Arkansas (Low p/e)	25.1
Chancellor (Growth), N.Y.	24.6
Chancellor (Multifact), N.Y.	24.4
IDS Trust (Core growth), Minn.	24.0
Pacific Financial (Cap. app.)	24.0
Midco Investors, N.J.	23.9
Sunburst Bank, Miss.	23.5
Chancellor (Select growth), N.Y.	23.5
State Street (Matrix syn./CM9)	23.3
Wilmington Trust (Growth), Del.	23.1
Equitable Capital (No. 4), N.Y.	22.8
First Trust, Colo.	22.8
The Phoenix (Growth S), Conn.	22.3
Southeast Bank, Fla.	21.9
Wells Fargo (Ext. mkt.), Calif.	21.9
First Wisconsin Asset (Growth A)	21.7
Pacific Financial (Income)	21.6
Shearson Trust (EF6), Del.	21.3
Pacific Financial (Low p/e)	20.4
Shearson Trust (EF7), Del.	20.4
S&P 500	**14.5**

1-year returns

	%
Chancellor (Growth), N.Y.	36.7
Chancellor (Select growth), N.Y.	34.4
Provident Mutual (S.A. 7), Pa.	33.7
Norwest Bank, Minn.	32.2
New York Life (S.A. 1)	30.8
Bank of the West, Calif.	30.7
Fifth Third Bank-Toledo, Ohio	29.7
Chancellor (Styleshift), N.Y.	28.7
American National Bank, Ind.	28.5
Commerce Bank, Mo.	28.1
The Phoenix (Growth S), Conn.	28.1
The New England (Cap. growth)	27.4
First Wisconsin Asset (Growth A)	26.9
Sentry Equity (S.A. B), Wis.	26.5
Merus Capital (Sp. growth), Calif.	26.3
Manufacturers Detroit (E)	26.2
Manufacturers Affiliate (Gro.), Ill.	25.8
Shearson Trust (EF7), Del.	24.8
Mark Twain Bank, Mo.	24.6
Liberty Nat'l, Okla.	24.5
Penn Mutual (S.A. A), Pa.	24.5
Aetna Life (S.A. 2), Conn.	24.4
CoreStates (Growth), Pa.	24.1
NBD Trust, Ill.	23.3
First Illinois (Corp.)	23.1
IDS Trust (Core growth), Minn.	23.1
Citizens Fidelity (E), Ky.	22.7
Southeast Bank, Fla.	22.5
Norwest Bank (Growth), Minn.	22.4
Sanwa Bank (D), Calif.	22.4
Texas Commerce (Growth)	22.4
Chancellor (Indexplus), N.Y.	22.3
S&P 500	**14.4**

5-year returns

	%
Chancellor (Select growth), N.Y.	19.7
Pacific Financial (Sm. cap.)	19.6
The Phoenix (Growth S), Conn.	19.3

IDS Trust (Core growth), Minn.	18.7
State Street (Matrix syn./CM9)	18.3
Sun Bank, Fla.	18.1
Shearson Trust (EF7), Del.	17.6
Chancellor (Growth), N.Y.	17.4
Lincoln Nat'l (Select), Ind.	16.5
First Nat'l Amarillo, Texas	16.2
Mark Twain Bank, Mo.	16.1
Wheeling Dollar Bank (B), W. Va.	15.8
NCNB Nat'l (Growth), N.C.	15.7
Pacific Financial (Cap. app.)	15.6
Meridian, Pa.	15.6
Pacific Financial (Income)	15.4
Bank One-Indianapolis (L)	15.4
Chancellor (Styleshift), N.Y.	15.4
The Phoenix, Conn.	15.1
South Carolina Nat'l	15.1
First Illinois (Corp.)	15.0
Assoc. Manitowoc, Wis.	14.9
Bank of New York Invst.	14.9
Chancellor (Indexplus), N.Y.	14.9
Southtrust Bank, Ala.	14.9
Bank One Wis. Trust (Growth)	14.8
U.S. Nat'l Bank, Texas	14.7
S&P 500	**13.3**

10-year returns

	%
Sun Bank, Fla.	23.8
Pacific Financial (Cap. app.)	21.4
First Nat'l Amarillo, Texas	18.5
First Union Nat'l, N.C.	18.3
Provident Mutual (S.A. 1), Pa.	18.2
U.S. Nat'l Bank, Texas	18.0
Manufacturers Detroit (E)	17.9
Nationwide Life, Ohio	17.9
Manufacturers Affiliate (Gro.), Ill.	17.9
Merus Capital (Income), Calif.	17.9
First Fidelity (Sel. value), N.J.	17.6
Wheeling Dollar Bank (B), W. Va.	17.6
Merus Capital (Gro. plus), Calif.	17.4
First NH Invst. (Value)	17.3
First Security Nat'l (D), Ky.	17.3
Chancellor (Growth), N.Y.	17.3
The New England (Sep. cap. gro.)	17.2
Markston Invst. (Lt. gro.), N.Y.	17.2
Manufacturers Life, Ontario	17.1
Aliac (Variable), Conn.	17.1
S&P 500	**15.3**

Top decile PIPER commingled special equity funds

3-month returns

	%
Chancellor (Em. health), N.Y.	42.9
Texas Commerce	39.8
Equitable Capital (Growth 3), N.Y.	39.3
General American (S.A. 20), Mo.	35.4
Bankers Trust (Cap. app.), N.Y.	34.0
Puget Sound (WIN), Wash.	33.4
PW Trust (Agg.), N.J.	33.2
Meridian (Quest), Pa.	33.1
Russell 2000	**29.7**
S&P 500	**14.5**

1-year returns

	%
Chancellor (Em. health), N.Y.	78.6
Equitable Capital (Growth 3), N.Y.	49.6
PW Trust (Agg.), N.J.	41.8
Princeton Bank (Em. gro.), N.J.	38.5
Bankers Trust (Cap. app.), N.Y.	36.9
Equitable Capital (Convert.), N.Y.	36.5
First Wis. Asset (Em. gro. C)	36.5
Norwest Bank, Minn.	34.7
S&P 500	**14.4**
Russell 2000	**6.8**

5-year returns

	%
Chancellor (Em. health), N.Y.	18.2
Shearson Trust (EF2), Del.	17.8
Putnam Cos. (Spec. gro.), Mass.	17.0
Norwest Bank, Minn.	16.6
Connecticut Nat'l Bank	16.1
Shearson Trust (EF5), Del.	16.0
Meridian (Quest), Pa.	15.5
S&P 500	**13.3**
Russell 2000	**5.1**

10-year returns

	%
Connecticut Nat'l Bank	18.8
Norwest Bank, Minn.	18.7
Chase-CMB (Med. cap.), N.Y.	17.7
S&P 500	**15.3**
Russell 2000	**10.4**

Top half PIPER commingled international funds

3-month returns

	%
Boatmen's Trust (Eq. W), Mo.	14.1
Wellington Trust (Pacific Basin)	12.9
CIGNA Corp. (Eq.), Conn.	11.6
CL Capital (Stock), Ga.	10.2
FTA World	**10.2**
Assoc. Bank-Neenah (World)	10.2
MSCI World	**10.0**
The Principal (Stock), Iowa	9.2
Wellington Trust (Stock)	9.2
Citibank Invst. (Eq.), N.Y.	9.2
Wilmington Trust (Eq.), Del.	9.2
Trust Co./West (Global), Calif.	9.2
Harris Trust (Eq.), Ill.	8.4
Connecticut Mutual (Overseas)	8.3
Provident Capital (Low p/e), Pa.	8.2
Chase-CMB (EAFE), N.Y.	7.6
Putnam Cos. (Eq.), Mass.	7.6
FTA Europe & Pacific	**7.6**
MSCI EAFE	**7.5**
Morgan Guaranty (Eq.), N.Y.	7.5
Lincoln Nat'l (S.A. 22), Ind.	7.5
Wells Fargo (Eq. index), Calif.	7.2
Travelers Cos. (TIIF), Conn.	7.2
Bankers Trust (EAFE), N.Y.	7.1
First NH Invst.-Bank Ireland (Eq.)	7.0
Wellington Trust (Em. co.)	6.8

1-year returns

	%
Chase-CMB (Fixed), N.Y.	27.8
Morgan Guaranty (Bond), N.Y.	21.3
Citibank Invst. (Fixed), N.Y.	20.2
Ameritrust Texas (Bond)	18.9
Global Fixed Income (Bond)	18.6
Global Fixed Income (Glo. bond)	17.3
Trust Co./West (Global), Calif.	14.8
Boatmen's Trust (Eq. W), Mo.	13.3
CIGNA Corp. (Eq.), Conn.	10.2
Global Fixed Income (Glo. yield)	9.7
Provident Capital (Low p/e), Pa.	8.2
Connecticut Mutual (Overseas)	7.8
MSCI World	**7.0**
CL Capital (Stock), Ga.	7.0
FTA World	**6.6**
Morgan Guaranty (Eq.), N.Y.	6.5
IAA Trust (CTF/I), Ill.	6.2
Wellington Trust (Pacific Basin)	5.3
Citibank Invst. (Eq.), N.Y.	4.8
Lincoln Nat'l (S.A. 22), Ind.	4.7
Putnam Cos. (Eq.), Mass.	4.7
U.S. Trust, N.Y.	4.3
NCNB Nat'l (Eq.), N.C.	3.8
The Principal (Stock), Iowa	3.2
MSCI EAFE	**2.9**
FTA Europe & Pacific	**2.3**

5-year returns

	%
CIGNA Corp. (Eq.), Conn.	21.0
Provident Capital (Low p/e), Pa.	19.2
CL Capital (Stock), Ga.	18.8
Wellington Trust (Pacific Basin)	16.8
Global Fixed Income (Glo. bond)	16.3
Lincoln Nat'l (S.A. 22), Ind.	16.0
Bankers Trust (Eq.), N.Y.	15.4
U.S. Trust, N.Y.	15.2
NCNB Nat'l (Eq.), N.C.	15.2
Chase-CMB (Fixed), N.Y.	14.8
FTA Europe & Pacific	**14.2**
Wellington Trust (Stock)	14.2
Wells Fargo (Eq. index), Calif.	14.1
Travelers Cos. (S.A. W), Conn.	14.1
Chase-CMB (EAFE), N.Y.	14.0
MSCI EAFE	**14.0**
Morgan Guaranty (Bond), N.Y.	13.5
FTA World	**13.0**
MSCI World	**12.8**

10-year returns

	%
Bankers Trust (Eq.), N.Y.	18.4
Putnam Cos. (Eq.), Mass.	18.0
MSCI EAFE	**17.7**
FTA Europe & Pacific	**17.4**
U.S. Trust, N.Y.	16.3
MSCI World	**15.9**
Citibank Invst. (Eq.), N.Y.	15.1
FTA World	**13.9**

Investment management consultant profiles will run Nov. 11.

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Top decile PIPER+ fixed-income funds

3-month returns

	%
Huff Asset	19.6
Houlihan Lokey Howard (Q. I)	18.4
Bell Capital (Mgd.)	14.7
Loomis, Sayles (Disc.)	12.3
Scheetz, Smith	11.6
Pension Mgmt.	10.5
Perpetual Advisory (Stamp)	7.4
Kemper Asset	5.8
Bartlett & Co. (Act./value)	5.2
Washington Square (Broad)	5.0
Executive Invst.	4.9
First Pacific (Interm.)	4.7
Davis, Hamilton (Interm.)	4.5
Loomis, Sayles (Invst. grade)	4.3
Loomis, Sayles	4.3
Bradford & Marzec (Full qual. disc.)	4.1
Legg Mason Capital (Act.)	4.0
Fayez Sarofim	3.9
Independence One (PRIMA VII)	3.7
Standish, Ayer & Wood (Act. core)	3.7
Miller Anderson Sherrerd	3.6
Capital Guardian	3.6
Durkee Capital (Act. quant.)	3.6
Tom Johnson Invst.	3.6
McKee Invst.	3.5
SLB G/C	**2.7**

1-year returns

	%
Perpetual Advisory (Stamp)	37.0
Bell Capital (Mgd.)	24.7
Huff Asset	17.8
Davis Hamilton (Interm.)	16.0
Durkee Capital (Act. quant.)	15.5
Criterion Invst. (Mort.)	14.8
Income Research (Long dur.)	14.7
Criterion Invst. (Long)	14.6
Furman Selz Capital	14.6
Kemper Asset (Plus)	14.6
Atlantic Port. Analytics (A)	14.4
Capital Guardian	14.4
Miller Anderson Sherrerd (Mort.)	14.3
Security Capital (En. I-t ind.)	14.3
McCowan Assoc.	14.2
Brinson Partners (U.S.)	14.2
Gardner Preston Moss (Rel. ret.)	14.2
NWQ Invst.	14.1
Legg Mason Capital (Act.)	14.1
Criterion Invst. (Disc./total ret.)	14.1
Turner Neill Invst. (Core)	14.1
Peters, Gamm, West & Vincent	14.0
Scudder Stevens Clark (Act. val.)	14.0
Miller Anderson Sherrerd	14.0
Pension Mgmt.	13.9
SLB G/C	**12.5**

5-year returns

	%
Huff Asset	12.8
Fox Asset	12.1
Bell Capital (Mgd.)	11.7
McKee Invst.	11.3
Bartlett & Co. (Act. value)	11.2
Meridian Invst.	11.1
Capstone Asset	10.7
Executive Invst.	10.5
Durkee Capital (Act. quant.)	10.4
Analytic Invst. (Plus)	10.1
Dolan Capital	10.0
Ferguson & Wellman (Rate antic.)	10.0
Philadelphia Invst.	9.9
Hoisington Invst.	9.9
U.S. Trust of California	9.8
Miller Anderson Sherrerd (Mort.)	9.8
Washington Square (Broad)	9.8
Brinson Partners (U.S.)	9.8
Bridgewater Asset (Act. dur.)	9.8
Strong/Corneliuson Capital	9.8
SLB G/C	**8.3**

10-year returns

	%
Bridgewater Asset (Act. dur.)	19.5
Huff Asset	16.6
Smith Affiliated	16.2
STW Fixed Income (Long co.)	16.1
Consistent Asset (Total ret.)	15.9
Miller Anderson Sherrerd (Mort.)	15.6
Meridian Invst.	15.6
Independence One (PRIMA X)	15.3
Wolf Webb Burk Campbell	15.2
Miller Anderson Sherrerd	15.1
Loomis, Sayles (Disc.)	15.0
Dolan Capital	15.0
Standish, Ayer & Wood (Act. core)	14.9
Greenwich Asset	14.9
SLB G/C	**13.0**

Top decile PIPER+ equity funds

3-month returns

	%
Dawson Samberg (Gro. Pequot)	50.9
Montgomery Asset (Sm. cap. gro.)	40.1
Equitable Capital (Sp. growth)	39.3
Mt. Auburn Mgmt. (Concen.)	38.7
Chilmark Capital (L.P.)	38.6
Duncan-Hurst (Sm. cap. gro.)	37.1
First Pacific (Capital)	37.0
Friess Assoc.	34.3
Wasatch Advisors	33.8
Insight Capital (Sm. cap.)	33.5
Qualivest Capital (Agg.)	33.5
Pacific Cent. (Em. gro./sm. cap.)	32.9
R.B. Haave Assoc.	32.5
Pacific Century (Growth)	32.2
Beekman Capital (Growth)	32.1
Nicholas-Applegate (Em. gro.)	32.0
Miller Anderson (Sm. cap.)	31.9
Wilshire As[illegible]m. co. gro.)	31.4
Scudder Ste[illegible]ns Clark (Sm. co.)	31.1
Pilgrim, Baxter, Greig (Sm. cap.)	31.1
Peregrine Capital (Sm. cap.)	30.6
Oak Assoc. (Firestone)	30.1
Granahan Invst. (Explorer II)	30.0
American Capital	30.0
Mellon Capital (MR 2000 sm.)	29.9
Cadence Capital (Sm. cap.)	29.8
Morgan Stanley Asset (Em. gro.)	29.8
Fidelity Mgmt. (Sel. sm. cap.)	29.2
Capital Growth Mgmt.	29.1
Frontier Capital (Sm. cap.)	29.1
Value Line (Sm. cap.)	29.1
Chase Investors (Sm. cap. value)	29.1
Jundt Assoc. (Sm. cap.)	29.0
GeoCapital (Sm. cap.)	29.0
McCowan Assoc. (Sp.)	28.9
Fred Alger Mgmt.	28.9
Harris Bretall Sullivan & Smith	28.9
Investors Res. (20th Cent. Gro.)	28.8
Hellman, Jordan	28.7
Standish, Ayer & Wood (Sm. cap.)	28.7
Dimensional (SCF BKTST-9/10)	28.7
Brandywine (Low p/e II/sm. cap.)	28.6
Keeley Asset (Sp. sit.)	28.6
S&P 500	**14.5**

1-year returns

	%
Mt. Auburn Mgmt.(Concen.)	60.3
Duncan-Hurst (Sm. cap. gro.)	52.9
Lehman Ark (Sp. sit.)	49.9
Equitable Capital (Sp. gro.)	49.5
Cheswick Invst.	48.1
Dawson Samberg (Gro. Pequot)	48.1
Jundt Assoc. (Sm. cap.)	44.6
Scudder Stevens Clark (Sm. co.)	41.4
Asset Mgmt. (Tiger)	38.7
Cohen, Davis & Marks	38.2
Morgan Stanley Asset (Em. gro.)	37.9
Capital Growth Mgmt.	37.3
Pacific Century (Growth)	35.8
Wilke/Thompson (Sm. cap. gro.)	35.5
Fred Alger Mgmt.	35.3
Hellman, Jordan (Acct. 25)	34.8
Denver Invst. (Medium)	34.7
Tukman Capital	34.7
Hellman, Jordan Mgmt.	34.4
Harris Bretall Sullivan & Smith	34.2
Hatteras Capital	33.8
Peregrine Capital (Sm. cap.)	33.5
Insight Capital (Sm. cap.)	33.5
Provident Invst.	33.0
Ashland Mgmt.	32.9
Brown Capital (Rel. value)	32.6
Montgomery Asset (Sm. cap. gro.)	32.2
Peregrine Capital (Growth)	32.1
Ashfield & Co.	31.8
Chase Invst.	31.8
Phoenix Mutual (Ind. growth)	31.2
Wilke/Thompson (Growth)	31.2
Fred Alger Mgmt. (Sm. cap.)	30.7
General American (Closed end)	30.1
Investment Advisers (Sm. cap.)	29.9
Wasatch Advisors	29.9
[illegible]:Kay-Shields (Growth)	29.4
Northern Invst.	29.2
IDS Equity (Em. growth)	29.0
Hutson Mgmt. (Growth)	28.9
Severn Assoc. (I)	28.7
Baring America (Growth)	28.5
S&P 500	**14.4**

5-year returns

	%
Mt. Auburn Mgmt. (Concen.)	26.5
Asset Mgmt. (Tiger)	24.4
Duncan-Hurst (Sm. cap. gro.)	24.0
Montgomery Asset (Sm. cap. gro.)	23.6
Kingsly, Jennison, McNulty	23.6
Quantitative Asset (En. index)	23.2
Cheswick Invst.	22.4
Jundt Assoc. (Sm. cap.)	22.3
Oak Assoc. (Firestone)	22.1
Hatteras Capital	21.5
WR Lazard (Growth)	20.0
Tukman Capital	19.9
DeJarnette Invst.	19.3
Turner Neill Invst.	19.2
C.H. Brown (Computer dir.)	19.1
Lehman Ark (Sp. sit.)	19.1
Harris Bretall Sullivan & Smith	19.0
Friess Assoc.	19.0
State Street Asset (Matrix syn.)	19.0
Pension Mgmt.	18.7
J.M. Hartwell & Co.	18.7
Dundee Partners	18.6
Investment Advisers (Sm. cap.)	18.1
Investment Counselors	18.0
Hutson Mgmt. (Growth)	18.0
Pilgrim, Baxter, Greig (Sm. cap.)	18.0
Pacific Cent. (Em. gro./sm. cap.)	17.8
Lincoln Capital	17.5
Institutional Capital	17.5
Brinson Partners	17.3
Fayez Sarofim & Co.	17.3
Peregrine Capital (Sm. cap.)	17.0
Columbus Circle Invst.	20.1
MPI Invst. Mgmt.	20.0
Wagstaff, Lodefink & Assoc.	19.9
S&P 500	**15.3**

Top decile PIPER+ special equity funds

3-month returns

	%
Keeley Asset (KAMCO 1)	43.8
Equitable Capital (Convertibles)	31.6
Russell 2000	**29.7**
Brinson Partners (Post venture)	28.9
Fidelity Mgmt. (Sm. co. gro.)	27.2
Guild Invst.	27.0
S&P 500	**14.5**

1-year returns

	%
Guild Invst.	90.7
Equitable Capital (Convertibles)	36.5

PIPER+ global funds

Periods ended March 31

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
First quartile	11.93	6.85	12.92	14.55	18.30
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Third quartile	7.23	0.91	7.88	11.39	14.84
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MSCI World	9.98	7.03	6.08	12.84	15.89
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PIPER+ international funds

Periods ended March 31

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
First quartile	9.22	3.43	10.85	13.31	19.30
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Third quartile	6.34	-1.51	5.09	12.51	14.67
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MSCI EAFE	7.52	2.86	0.67	13.95	17.74
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PIPER+ balanced/TAA funds

Periods ended March 31

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
First quartile	11.90	16.79	14.47	12.30	16.06
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Third quartile	7.90	11.31	12.02	10.02	13.98
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Ashfield & Co. 17.0
Provident Invst. 17.0
Hellman, Jordan Mgmt. 16.9
Investment Res. (20th Cent. Gro) 16.9
S&P 500 13.3

10-year returns

	%
Asset Mgmt. (Tiger)	35.8
C.H. Brown (Computer dir.)	24.5
Nicolas-Applegate (Em. gro.)	24.4
Severn Assoc. (I)	23.1
Quantitative Asset (En. index)	22.7
Roxbury Capital	22.5
Fox Asset Mgmt.	22.3
Balch Hardy & Scheinman	22.1
GAMCO (ERISA)	22.0
Ashland Mgmt.	21.9
Roger Engemann & Assoc.	21.4
Cadence Capital (Lg. cap.)	21.4
Ashfield & Co.	21.2
Securities Res. (Dreyfus Gro.)	21.0
Investment Counselors	20.9
Capital Growth Mgmt.	20.8
Leylegian Invst.	20.4
Tom Johnson Invst.	20.4
Neuberger and Berman	20.4
Hellman, Jordan Mgmt.	20.4
Caldwell & Or[illegible]	20.3
Systematic Financial (Hi cash flo)	20.1
Axe-Houghton (Em. growth)	33.8
Brinson Partners (Post venture)	27.9
Amerindo U.S. (Em. gro. tech.)	27.8
S&P 500	**14.4**
Russel 2000	**6.8**

5-year returns

	%
Guild Invst.	56.2
NFJ Invst. (Select)	29.4
Amerindo U.S. (Em. gro. tech.)	21.7
Equitable Capital (Convertibles)	15.5
S&P 500	**13.3**
Russell 2000	**5.1**

10-year returns

	%
Guild Invst.	39.7
Amerindo U.S. (Em. gro. tech.)	27.3
S&P 500	**15.3**
Russell 2000	**10.4**

Top half PIPER+ global equity funds

3-month returns

	%
Guild Invst.	26.4
Marvin & Palmer Assoc.	16.3
Clemente Capital	13.4
Martin Currie (A)	13.4
Marathon Asset	12.6
G.T. Capital	12.3
WorldInvest	12.1
Clemente Capital (RCB)	11.9
Brinson Partners (World)	11.9
Putnam Cos.	11.6
RCB Int'l	11.4
Templeton Invst.	11.3
Batterymarch Financial	11.2
Stewart, Ivory (RCB)	11.2
Scudder Stevens & Clark	11.1
Clemente Capital (Freedom)	10.8
Clemente Capital (Growth)	10.7
FTA World	**10.2**
MSCI World	**10.0**

1-year returns

	%
Guild Invst.	29.1
Martin Currie (A)	11.9
Brinson Partners (World)	11.2
IDS Int'l	10.5
Fiduciary Trust	9.8
Marvin & Palmer Assoc.	9.2
Stewart, Ivory (RCB)	8.9
Putnam Cos.	7.0
MSCI World	**7.0**
FTA World	**6.6**
London & Bishopsgate (En. index)	6.3
Henderson Admin.	5.3
Marathon Asset	5.1
Ivory & Sime Int'l (3)	4.7
Edinburgh Wilmington Int'l	4.1
Credit Suisse Asset	3.6
Lombard Odier Int'l	2.5
Scudder Stevens & Clark	2.1
G.T. Capital	2.1

5-year returns

	%
Burgess Capital	20.8
Martin Currie (A)	19.9
Brinson Partners (World)	17.2
Ivory & Sime Int'l (3)	16.8
Stewart, Ivory (RCB)	16.6
Marvin & Palmer Assoc.	14.6
Scudder Stevens & Clark	14.4
IDS Int'l	14.4
WorldInvest	14.4
Fiduciary Trust	13.7
Batterymarch Financial	13.1
Credit Suisse Asset	13.1
FTA World	**13.0**
Warburg Invst. (SL3)	12.9
MSCI World	**12.8**

10-year returns

	%
Burgess Capital	21.1
WorldInvest	18.6
Schroder Capital (X)	18.0
Templeton Invst.	17.7
MSCI World	**15.9**
FTA World	**13.9**

Top half PIPER+ international equity funds

3-month returns

	%
Crown Financial	24.8
Marvin & Palmer (Em. mkts.)	17.8
Boston Overseas (GE pension)	16.3
Martin Currie (Far East)	16.1
Boston Overseas (Castegren)	15.7
Boston Overseas (Owens Illinois)	14.8
Kleinwort Benson Int'l	14.5
Boatmen's Trust (W)	14.1
WorldInvest (IPEF)	13.0
Pictet Int'l (Pos. value uncon.)	12.8
RCB Int'l	12.6
AIG Global Invst. (EAFE)	11.9
Pictet Int'l (Avg. risk cat. V)	11.7
CIGNA Int'l Invst.	11.6
G.T. Capital (EAFE)	11.3
Cseh Int'l (Low p/e)	11.2
Rowe Price-Fleming (Discovery)	11.2
Pictet Int'l (Pos. value con.)	10.9
Martin Currie (B)	10.8
Scudder Stevens & Clark	10.2
Baring Int'l (Act./passive)	10.1
The Principal	9.2
Wellington Trust	9.2
Nikko Capital (EAFE active)	9.2
Citibank Invst.	9.2
Pictet Int'l (Sm. cap.)	8.9
State Street (Cntry. sel. hi value)	8.9

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Quantitative Fixed Income Management

Grantham Mayo v. Otterloo (Act.)	8.9
Boston Int'l (Prime value)	8.7
Baring Int'l (Acct. 1 EAFE)	8.7
Harris Invst.	8.4
Marathon Asset (Non-U.S.)	8.3
Templeton Invst.	8.3
Provident Capital (Low p/e)	8.2
Alliance Capital (Act.)	8.2
Grantham Mayo v. Otterloo (Core)	7.9
Parametric Portfolio	7.8
Rowe Price-Fleming (Disc.)	7.6
Boston Int'l (Prime)	7.6
Rowe Price-Fleming (Trp.)	7.6
FTA Europe & Pacific	**7.6**
Capital Guardian	7.5
MSCI EAFE	**7.5**
J.P. Morgan Invst. (Non-U.S.)	7.5
J.P. Morgan Invst	7.5
Putnam Cos.	7.5

1-year returns

	%
Boatmen's Trust (W)	13.3
Pictet Int'l (Pos. val. uncon.)	13.2
Marvin & Palmer (Em. mkts.)	10.7
CIGNA Int'l Invst.	10.2
Cseh Int'l (Low p/e)	9.5
Brinson Partners (Non-U.S.)	8.5
Provident Capital (Low p/e)	8.2
Wright Investor's Service	7.7
J.P. Morgan Invst. (Non-U.S.)	7.5
J.P. Morgan Invst.	6.5
Schroder Capital (Sm. co.)	6.2
Boston Overseas (Castegren)	5.3
Putnam Cos.	5.2
Kleinwort Benson Int'l	5.0
Citibank Invst.	4.8
Baring Int'l (Act./passive)	4.5
Martin Currie (B)	4.4
Henderson Admin. (EAFE)	4.3
Baillie Gifford (NCNB Texas)	4.1
Ivory & Sime Int'l (5)	4.1
UBS Phillips & Drew (EAFE)	3.6
Wellington Trust (Emerg.)	3.5
G.T. Capital (EAFE)	3.4
Axe Core Investors (ADR)	3.3
Rowe Price-Fleming (Disc.)	3.2
AIG Global (EAFE)	2.9
Bankers Trust Invst. (EAFE)	2.9
MSCI EAFE	**2.9**
Wells Fargo Invst.	2.8
Boston Overseas (Owens Illinois)	2.8
WorldInvest (IPEF)	2.7
Pacific Financial (EFF)	2.7
The Principal	2.7
Baring Int'l (Acct. 1 EAFE)	2.7
Lazard Freres Asset	2.5
Capital Guardian	2.3
FTA Europe & Pacific	**2.3**
IDS Int'l (Act./passive)	2.2
Parametric Portfolio	2.1
Pictet Int'l (Avg. risk cat. V)	2.1
Boston Overseas (GE pension)	1.8
Pictet Int'l (Pos. value con.)	1.7
Schroder Capital (Non-U.S.)	1.6
Grantham Mayo v. Otterloo (Core)	1.6
Lombard Odier Int'l (EAFE)	1.6
Wellington Trust	1.3

5-year returns

	%
Pictet Int'l (Pos. value uncon.)	36.3
Ivory & Sime Int'l (3)	25.2
State Street (Cntry. sel. hi value)	22.3
Boston Overseas (Castegren)	22.2
CIGNA Int'l	21.0
Boston Overseas (GE pension)	20.5
Lazard Freres Asset	19.8
Martin Currie (Far East)	19.8
Cseh Int'l (Low p/e)	19.4
Provident Capital (Low p/e)	19.1
Templeton Invst.	18.5
Grantham Mayo v. Otterloo (Core)	18.0
Batterymarch Financial	17.0
G.T. Capital (EAFE)	17.0
Brinson Partners (Non-U.S.)	16.8
Scudder Stevens & Clark	16.8
Rowe Price-Fleming (Disc.)	16.7
Globe Finlay (EAFE)	16.2
Rowe Price-Fleming (Trp.)	16.2
Grantham Mayo v. Otterloo (Act.)	16.0
Baring Int'l (Act./passive)	15.8
Kleinwort Benson Int'l	15.8
Bankers Trust Invst.	15.6
Lombard Odier Int'l (EAFE)	15.5
Baillie Gifford (NCNB Texas)	15.1
Martin Currie (B)	15.0
Baring Int'l (Acct. 1 EAFE)	15.0
Henderson Admin. (EAFE)	14.9
WorldInvest (IPEF)	14.7
County NatWest (Act./passive)	14.3
FTA Europe & Pacific	**14.2**
MSCI EAFE	**14.0**

10-year returns

	%
Grantham Mayo v. Otterloo (Act.)	22.1
Templeton Invst.	21.8
Pacific Financial (EFF)	21.6
Baring Int'l (Act./passive)	19.5
Putnam Cos.	18.7
Bankers Trust Invst.	18.4
Baring Int'l (Acct. 1 EAFE)	18.0
G.T. Capital (EAFE)	17.9
Brinson Partners (Non-U.S.)	17.9
MSCI EAFE	**17.7**
FTA Europe & Pacific	**17.4**

Top decile PIPER+ balanced/TAA funds

3-month returns

	%
BRS Capital (TAA)	30.8
Chancellor (Stockshift 200)	29.6
Rittmann Capital	28.8
Chancellor (Stockshift 150)	21.3

Continued on page 26

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American National Can Co.

CHICAGO — American National Can Co. hired two managers and added to a current manager's portfolio for its $950 million fund.

Rittenhouse Financial Services, Philadelphia, and Institutional Treasury Management, Irvine, Calif., received $45 million each for new portfolios. Rittenhouse will invest in large-capitalization stocks, while Institutional Treasury will invest in intermediate-maturity bonds, according to Walt Melcher, American National's director of pension investments.

Kemper Asset Management, Chicago, will receive another $15 million for its large-cap growth account.

Arkansas Teacher Retirement

LITTLE ROCK, Ark. — The $2.5 billion Arkansas Teacher Retirement System hired two growth stock managers.

Bill A. Shirron, executive director, said Alliance Capital Management, Minneapolis, and Munder Capital Management Inc., Birmingham, Mich., will each manage equity portfolios of $200 million.

Funding will come from a cash account managed by Oppenheimer Capital, New York, and from a passive fixed-income account.

Shearson Lehman Brothers Inc., Wilmington, Del., served as consultant.

Boynton Beach Employees

BOYNTON BEACH, Fla. — The $19.6 million employees' pension plan of Boynton Beach, Fla., hired Barnett Banks Trust Co. Jacksonville, and Davis Hamilton Jackson & Associates, Houston, to each manage half of the fund's assets in balanced accounts.

Barnett Banks also was hired as the fund's custodian, said Grady Swan, finance director for the city.

The assets were previously managed by Midlantic National Bank & Trust Co./Florida, Fort Lauderdale.

Merrill Lynch Consulting Services, Jacksonville, assisted.

Graphic Communications Union

WASHINGTON — The $880 million Graphic Communications International Union Supplemental Retirement & Disability Fund hired two fixed-income specialists to manage $30 million each, said G.L. Griesbauer, administrator.

The fund hired Trust Fund Advisors, Washington, to manage intermediate-term bonds, and Criterion Investment Management Co., Houston, for long-term instruments.

Funding comes from the fixed-income portion of a balanced portfolio run by Lehman Ark Management Co., New York, which now will run a $115 million equity-only account.

Marco Consulting Group, Chicago, assisted in part of the search.

University of Houston

HOUSTON — The University of Houston endowment, with about $100 million in assets, hired two equity managers and a fixed-income manager.

Capital Technology Inc., Charlotte, N.C., and Scudder, Stevens & Clark, New York, will run $5 million each in equity portfolios. Vaughan, Nelson, Scarborough & McConnell Inc., Houston, will manage a $20 million fixed-income portfolio.

William M. Mercer Asset Planning Inc., Dallas, assisted.

Manhattan/Bronx Surface Transit

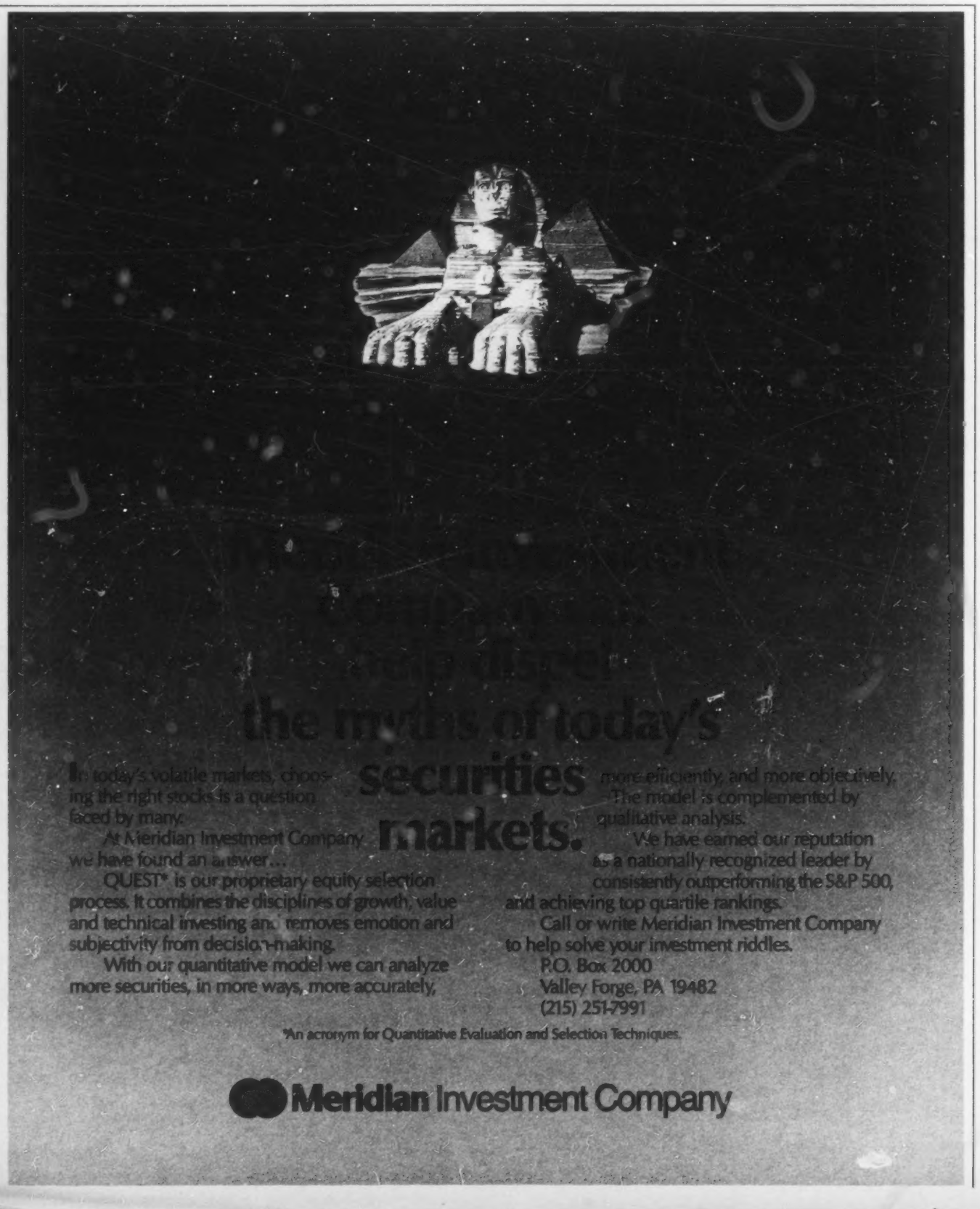
NEW YORK — The Manhattan and Bronx Surface Transit Operating Authority hired six core managers for its $100 million defined benefit plan.

The fund, a separate subsidiary of the New York City Transit Authority, hired Turner Investment Partners, Berwyn, Pa., for active growth equities; Lord, Abbett & Co., New York, and NCM Capital Management Group, Durham, N.C., for active value equities; WR Lazard & Co., New York, for structured fixed income; Morgan Grenfell Capital Management, New York, for core fixed income; and Bank of Ireland Asset Management, New York, for international equities.

Walter Weinert, assistant chief financial officer for the authority, said the distribution of assets was the first for the fund, which was established as a tax-qualified plan in November 1989. The assets have been managed in short-term accounts.

Specific dollar allocations to each manager have not been determined.

See **Movers** *on page 33*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Continued from page 24

Harris Bretall Sullivan Smith (Gro.)	18.8
Stephenson & Co. (Value)	18.6
Investment Counselors	17.6
Fred Alger Mgmt.	16.9
Denver Invst.	16.8
Brown Capital (Rel. value)	16.4
Fayez Sarofim	16.2
Provident Invst.	15.9
Cheswick Invst.	15.7
Turner Neill Invst. (Core)	15.7
Kemper Asset	15.5
Wagstaff, Lodefink	15.4
Caldwell & Orkin	15.3
Forstmann-Leff Assoc.	15.2
Ashfield & Co.	14.8

1-year returns

	%
Rittmann Capital	39.9
Cheswick Invst.	33.2
Chancellor (Stockshift 200)	32.7
J&W Seligman	29.3
Fred Alger Mgmt.	26.1
Harris Bretall Sullivan Smith (Gro.)	25.4
Provident Invst.	24.9
Chase Invst.	24.4
Brown Capital (Rel. value)	23.7
Investment Counselors	23.5
Denver Invst.	23.5
Turner Neill Invst. (Core)	22.8
Fayez Sarofim	22.8
Northern Capital (Asset alloc.)	22.7
Chancellor (Stockshift 150)	22.7
Ashfield & Co.	22.5
Kemper Asset	21.7
Caldwell & Orkin	21.6
Value Line	21.3

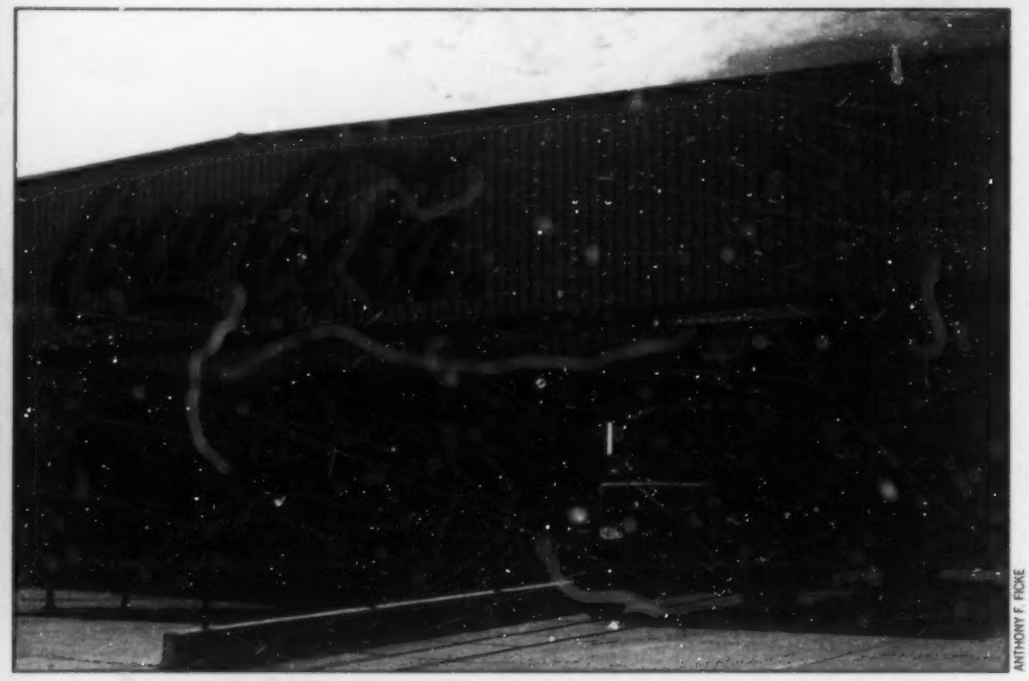
5-year returns

	%
Oxford Capital	20.2
Chancellor (Stockshift 200)	19.7
Investment Counselors	17.0
Institutional Capital	16.3
Turner Neill Invst. (Core)	16.2
Quantilogic Asset (TAA)	15.7
Fayez Sarofim	15.6
Bankers Trust Invst. (Act. TAA)	15.2
Cheswick Invst.	15.1
Value Line	15.0
Zaske, Sarafa & Assoc.	15.0
Dolan Capital	14.6
Dean Invst.	14.6
Harris Bretall Sullivan Smith (Gro.)	14.4
Provident Invst.	14.3
Lincoln Capital	14.3
Brinson Partners (Global)	14.2

10-year returns

	%
BRS Capital (TAA)	19.9
First Bank Milwaukee	19.4
Penteq (Stocks/cash)	19.1
Zaske, Sarafa & Assoc.	19.0
Chancellor (Assetshift 65)	18.8
Wells Fargo Invst. (3-way TAA)	18.5
Dolan Capital	18.4
Investment Counselors	18.4
Dean Invst.	18.3
Caldwell & Orkin	18.2
Mellon Capital (3-way alloc.)	18.0
J.P. Morgan Invst. (TAA)	17.9

SPECIAL REPORT: CROSS-BORDER FINANCING



ANTHONY F. FICKE

Coca-Cola Co. is spending millions to establish a customer base in new markets of Eastern Europe.

Smaller targets spotlighted

Middle market becomes new hotbed of dealmaking

By Marlene Givant Star

Global mergers and acquisitions activity has fizzled this year, but that's not stopping a few steadfast companies from pursuing their strategic visions abroad.

For F.W. Woolworth Co., New York, that vision is Europeans in state-of-the-art sneakers. For Coca-Cola Co., Atlanta, it's consumers in Eastern Europe and other "virgin" beverage markets bubbling over soda pop. For Ashland Oil Inc., Ashland, Ky., it's gaining a toehold in Southeast Asia's so-called Pacific Tigers.

Some companies that have been out of the acquisition game for years have bought businesses this year as prices are more realistic and competition is more relaxed.

American Express Co., New York, which hasn't had a major acquisition by a wholly owned subsidiary in several years, is negotiating the purchase of Signet Ltd., a bank card processing organization in the United Kingdom.

Even a few billion-dollar cross-border deals grabbed headlines. Earlier this month, Square D Co., Palatine, Ill., finally succumbed to a sweetened $68 a share or $2.23 billion takeover bid from France's Schneider S.A.

Big deals are rare. In 1990, there were 361 U.S. acquisitions by European buyers worth $26.3 billion, compared with $30.4 billion in 1989, according to Acquisitions Monthly. During 1990, European companies — led by U.K. acquirers — made just 67 $50 million-plus acquisitions in the United States compared with 90 in 1989 and 104 in 1988.

But the number of smaller U.S. transactions by European buyers (in which no value was disclosed) increased to 132 last year from 92 in 1988, the publication said.

Likewise, privately owned mid-size European companies are hot on the deal trail with some merging to form pan-European organizations across the Continent.

In the period 1985 to 1990, there were 165 management buy-outs on the Continent, led by France (with 29), according to a study by KPMG Peat Marwick McLintock, London. In 1989 alone, the United Kingdom had more than 350 management buy-outs. "The middle market, in Europe especially, continues to be active in terms of deals we're seeing," said Neal Howe, managing director-marketing of Schroder Ventures, New York.

But in aggregate, mergers and acquisitions plunged in the first quarter, with all deals involving U.S. targets down 41.6% to $36.4 billion from $62.35 billion in the heady first quarter of 1990, according to IDD Information Services Inc., New York. The dollar volume of completed deals involving targets in the United States and Europe fell by virtually the same percentage, to $54.2 billion from $91.9 billion in the first quarter of 1990.

Where the Japanese are

Like U.S. companies, Japanese firms are focusing their attention on Europe — the United Kingdom garnering the most cross-border transactions involving Japanese, and France, second. But the Netherlands attracts more Japanese investment in gross value terms, according to the Japan External Trade Organization, Tokyo.

In the United States, big Japanese companies have placed greatest emphasis on the entertainment and leisure sector, investing $10.252 billion in the two years ended Dec. 31, 1990. In Europe, Japanese companies are focusing most heavily on computers, with investments of nearly $1.5 billion in the same period, according to Japan M&A Reporter.

Acquisitions of U.S. companies by firms in the Pacific basin excluding Japan declined by more than half in 1990 to $1.431 billion, while U.S. companies nearly quadrupled the dollar volume of their activities in that region to $4.115 billion, according to Pacific M&A Reporter.

Many strategic cross-border deals are financed mostly or entirely with cash, a logical choice because the slowdown in M&A across the board is due largely to the tightening of bank credit, lack of available public junk bond markets and the recession.

When borrowing is needed, it is often in the targeted foreign market, so acquiring companies can match the currency of the liability with future cash flows of the foreign entity. Local market regulations and tax considerations also factor into the equation.

While M&A is slow now, the long-term allure of the lucrative advisory business is prompting big investment banking boutiques like Wasserstein Perella & Co. and The Lodestar Group, both of New York, to gear up for developing business abroad.

"We made an international commitment before it was fashionable . . . One-third of our peo-

See **Middle** *on page 30*

Top European acquisitions in the U.S. during 1990

Target (U.S.)	Bidder	Value ($ mils.)
Rorer	Rhone-Poulenc (France)	3,254
Norton	Saint-Gobain (France)	1,920
Home Insurance	TVH Acquisition (Sweden)	970
Peabody	Hanson (U.K.)	726
Corroon and Black	Willis Faber (U.K.)	704

Tax laws keeping foreign loans foreign

By Margaret Price

When International Paper Co. launched an overseas acquisitions drive in 1987, the company ran into a costly problem for American multinationals: U.S. tax law.

Tax law, especially since the 1986 Tax Reform Act, often has discouraged U.S. parent companies from borrowing in their name for foreign business expansion. Lending money to foreign subsidiaries also has tax consequences.

Some experts believe the tax law has discouraged overseas expansion by U.S. companies just as some were positioning themselves to compete in Europe after 1992.

International Paper quickly learned how to cope. In the case of the $35 million acquisition of Swedish paper company Bergvik Kemi AB in 1988, International Paper initially borrowed funds in its name from a U.S. bank to purchase shares of Bergvik Kemi.

A year later, International Paper used a Swedish subsidiary, Anitec Sweden, to purchase shares of Bergvik Kemi and used the proceeds of that sale to repay the the parent company's initial borrowings to buy Bergvik Kemi. That put the debt on the books of an overseas IP subsidiary — a process that ultimately allowed International Paper to claim a full deduction from the interest expense that could be used as a foreign tax credit.

Experts say other companies have also employed strategies that enhanced their ability to take foreign tax credits — and/or strategies to eschew tax problems from the Internal Revenue Service's netting rule.

The netting rule, which has rankled many companies, may be soften soon, since the Internal Revenue Service has proposed revisions to the existing provision.

But under the current netting rule, a U.S. company's ability to take foreign tax credits is harmed if the parent builds up a significantly higher debt-to-asset ratio than exists for its foreign operations. The idea: to discourage U.S. multinationals from borrowing and lending money to foreign units and getting a tax credit both in the United States and abroad for interest on borrowing.

But even with softened netting rules, corporate executives say the main problem would remain. They say the U.S. government is intruding on — and sometimes even distorting — the process of foreign business expansion.

Robert Stricoff, a partner with Arthur Andersen & Co., New York, said U.S. tax regulations have "made it more expensive to invest overseas than before the tax laws changed."

As a result, companies' returns from foreign operations "have to be higher than they would have before the law changed," Mr. Stricoff said. In addition, he said, the tax provisions put U.S. companies at a competitive disadvantage compared with foreign companies stalking the same post-1992 opportunities in Europe.

"U.S. tax policy is not nearly as advantageous to foreign investment as many other countries' policies are," Mr. Stricoff said.

Not surprisingly, many U.S. corporate executives have complained to the IRS. According to Tax Analysts, publisher of Tax Notes, the IRS received more than 50 comments from companies and individuals about netting rules.

Donald Foley, International Paper's assistant treasurer, said tax considerations have been a key issue in financing foreign acquisitions since 1987. While tax issues hadn't derailed any of International Paper's plans, he said, "it's possible it could have an effect on acquisitions in future."

Of course, the effects of U.S. tax provisions aren't all bad. Borrowing abroad can mean borrowing in the home currency and debt markets of the acquisition for exposure purposes. Such local borrowing might make economic sense, Mr. Foley noted.

But in Mr. Foley's view, current tax provisions do encourage foreign borrowing. By lowering the U.S. corporate tax rate to 34% from 46%, which is lower than the corporate tax rates of many foreign countries, 1986 tax changes provided another incentive to borrow overseas and to use debt instead of equity. That's because foreign units of U.S. companies could get a more significant interest deduction from their local taxes if they did the borrowing.

A U.S. Treasury official, who asked not to be named, said tax-dodging practices by some companies prompted the change.

Some companies found that by borrowing in the name of entities that had little or no foreign-sourced earnings, they could avoid losing out on foreign tax credits, the Treasury official said. After all, a tax deduction for interest expense will depress overall foreign earnings. Of course, higher earnings were preferable: the higher the earnings from abroad, the higher the foreign tax credits that accrued to the U.S. parent.

According to the Treasury official, Congress attempted to stop this tax dodging by toughening its rules on expense (including interest) allocations between U.S. companies and their foreign units. Effectively, the rules reduced net foreign income and thus lowered U.S. multinationals' foreign tax credits.

In 1988, the IRS imposed the netting rule that effectively discourages companies from making loans to their foreign units.

Taken together, these rules "were trying to prevent abuses," not address broad capital markets issues, said the Treasury official. He nonetheless agreed that the current netting rule "makes it hard to borrow here and lend overseas if a corporation cannot use all its foreign tax credits."

But some companies aren't letting taxes and other issues thwart opportunities.

Morrison Knudsen Corp., Boise, Idaho, recently announced its intent to purchase for $33 million a 49% stake in McConnell Dowell Corp. Ltd., an Australian-based engineering and construction firm. Morrison Knudsen will finance the investment with $9.6 million of the proceeds from a proposed public offering of 1.5 million shares of common stock that should raise about $75 million, and $23.4 million as a loan to McConnell Dowell. The loan will be in the form of convertible notes.

According to a company spokesman, a "big attraction" for this financing structure is that Morrison Knudsen will be receiving a "terrific return" of 13.9% on the notes. ■

Middle

Continued from page 28

ple and one-third of our business have an international dimension. Over time we'd like one-third to one-half of our business to have an international dimension," said Jeffrey A. Rosen, president of Wasserstein Perella & Co. International Ltd., London.

Some firms actually create their own global deals. In what it calls a group building strategy, Schroder Ventures has been forming pan-European companies with capital from its venture and buy-out funds.

Ashland Oil's experience

Like many companies, Ashland Oil is targeting Europe, as well as the Pacific Basin, for its acquisition plans.

"There's competitive tension as projects compete for funds (domestically and internationally). We're beginning to place a higher priority on selected foreign investments because of the globalization of many of our businesses, particularly the chemical business," said Paul Chellgren, senior vice president and chief financial officer.

Ashland recently acquired a private U.K. chemical distribution company for less than $10 million, financing the deal through local bank loans in sterling guaranteed by the parent company.

The new company is called Ashland Plastics U.K. Ltd. Previously, it was a combination of three or four different companies owned by one group of individual investors.

"It was pretty conventional bank financing. The debt service is to be handled by the new operation in sterling. We thought it was appropriate to finance in local currency," Mr. Chellgren said.

Particularly in countries with high tax rates, Ashland would rather have local interest expense denominated in local currency so it may be deducted on in-country tax returns.

In the Pacific Basin, Ashland Oil might establish a chemical plant in Australia, which would be financed with Australian dollar borrowings from local banks, international banks or a combination. It also completed a 50-50 venture in a Southeast Asian country with a local investor, deploying U.S. dollars because "we see it being a permanent cash infusion. Subsequently the company will finance itself in local currency," he said.

The deal won't be announced for several months.

"We're not alone in trying to get our feet on the ground in terms of the Pacific Tigers," he said.

Often companies choose to focus on regions in which products that are old-timers in the United States might command a fresh look.

"Mature products in the U.S. would be at a more rapid stage of use and development internationally. The foundries business is mature in the U.S. It's much less so in China, Taiwan and Korea, where they're building new foundries," Mr. Chellgren said.

Woolworth's way

Foundries are to Southeast Asia what athletic shoes are to Europe, at least according to F.W. Woolworth, which plans to race through Europe establishing Foot Locker athletic shoe stores, largely through cash acquisitions.

Woolworth hopes to add at least 53 stores in Europe so that it will end 1991 with more than 84.

"We see Foot Locker Europe as an event consisting of 1,000 stores in the next 10 to 15 years," said C. Jackson Gray, vice president-corporate planning and development. Per-capita consumption of athletic shoes in Europe is one-thirteenth the level in the United States, he noted.

After establishing its first store in Germany in 1987, Woolworth purchased ProFoot in the Netherlands in early 1990, converting the 17-chain stores in Holland and Belgium to Foot Lockers. Early this year, it acquired Freedom, a small athletic shoe chain in the United Kingdom, and will convert those stores to Foot Locker as well.

Woolworth executives hope to open stores in France and Italy later this year, but by taking over retail store leases rather than through acquisitions. They also might expand Lady Foot Locker in Europe.

Although it loves sneakers, Woolworth does not have a one-track mind.

The company also plans to add seven Woolworth stores in Germany; 30 Woolworth shops, compact versions of the store; 15 Rubin costume jewelry stores; eight Moderna shoe stores; and five Lady Plus stores, which sells large-size women's apparel.

For companies with mature consumer products, so-called emerging markets are the most promising frontier.

PepsiCo Inc., Purchase, N.Y., in October acquired more than 70% of the stock of Empresas Gamesa, Mexico's largest cookie manufacturer for approximately $300 million. The acquisition was done through a tender offer through PepsiCo's Mexican snack food subsidiary, Sabritas S.A. de C.V.

Its archrival, The Coca-Cola Co., has a $450 million investment program to build its soft drink business in eastern Germany. Coke kicked off the program in April, opening a $45 million bottling plant in Halle, Germany.

In addition, Coca-Cola Amatil Ltd. of Australia and Budapest's BULIV created a more than $14 million joint venture to manufacture and market Coke and other soft drinks. The parent also plans to invest $50 million in Poland.

Financing expansion

Just as there is no one way of doing business abroad, there is no one way of financing overseas.

Millicom Inc., New York, is building its cellular networks through its affiliate, Millicom International Cellular, in such remote spots as the Philippines, Pakistan, Sri Lanka, Guatemala and, most recently, Ghana.

To finance the programs, the company might funnel cash directly to the operation, perhaps alongside cash from local partners. Or it could borrow from local banks, international banks or a combination, or borrow from international agencies such as The World Bank. It also might borrow in the United Kingdom or in local capital markets when possible, said J. Shelby Bryan, chairman and chief executive officer.

Millicom International Cellular was granted a cellular telephone license in Ghana in mid-May. It holds a majority interest in a Ghanian operating company, Millicom Ghana Ltd., with the remaining interest held by local partners.

"We're in the middle of discussions with a number of different financial institutions in the U.S. and outside on a private placement to finance the building of the Ghana network," Mr. Bryan said.

But the company's principal focus now is Europe, because several countries have decided to grant cellular licenses.

Like Millicom, American Express Co. must finance operations in out-of-the-way places. In 1990, the company added Dresden, Budapest and Berlin to its charge card business' network of more than 1,500 locations in more than 120 countries.

"With respect to ongoing operations, we're always looking for the most tax-efficient way to fund in a given country. We borrow in the U.S. and on-lend (to the foreign subsidiaries) as well as borrow overseas," said Ron Starkman, vice president and assistant treasurer of American Express. Another strategy involves issuing in one currency and swapping into one or more other currencies as needed to fund its businesses overseas. The card is denominated in 31 currencies.

In addition to the pending Signet deal, Amex has established a joint venture with Sumitomo Bank in Japan, in which the bank will provide credit support and distribution for cards and a joint marketing effort with Lloyd's Bank in London for the corporate card.

Global banking boutiques

Although slow now, banking boutiques are betting on an upsurge in cross-border activity.

In Wasserstein Perella's European expansion, only gentry need apply. In February, it appointed Lord Robert Haslam, the former chairman of British Coal Corp., non-executive chairman of its U.K. merchant banking arm, Wasserstein Perella & Co. International Ltd. In addition, Sir Peter Levene, former chief of defense procurement for Britain's Defense Ministry, signed on as deputy chairman.

In March 1991, it formed Wasserstein Perella Deutschland GmbH, appointing Helge Petersen as chief executive. Mr. Petersen, a Harvard MBA, spent nine years as a partner at McKinsey & Co. Inc. in Germany. Most recently, he was chief executive of a private German company.

In 1990, Wasserstein Perella & Co. opened an office in Paris and formed a 300 million European currency unit Euro-mezzanine fund with Banque Paribas, the largest such fund in Europe, in which Commerzbank and Amro Bank are major investors.

Of course, the firm's European voyage hasn't been all smooth sailing. Jean-Luc Biamonti, a founder of its Paris office, left in April. Prior to Mr. Biamonti's departure, Franco Reviglio, former minister of finance of Italy, was named senior managing director.

The firm's Japanese business is conducted through Nomura Wasserstein Perella, with offices in Tokyo and Osaka. Nomura Securities Co. Ltd. is a minority equity investor in Wasserstein Perella & Co.

Reflecting its global presence, "we're looking at a number of projects involving American, Japanese or European companies looking at acquisitions in Europe," Mr. Rosen said.

Another large U.S. boutique, The Lodestar Group, is moving into Europe. In May, it entered into a strategic partnership specializing in corporate finance advisory work. Subject to Federal Reserve Board approval, Societe Generale will make an investment in Lodestar, joining Yamaichi Securities Co. Ltd., Lodestar's Japanese link, which already has a minority stake.

Some firms aren't forming joint ventures or adding staff.

Schroder Ventures is instead building pan-European companies using the $1.5 billion in capital of various venture and buy-out funds it manages.

"European private businesses are extremely fragmented and privately owned. By making acquisitions around a quality management team and building additional companies in and around that holding company, we're able to bring together a more profitable business that will be more attractive for listing on a local exchange or an acquisition target for a larger multinational company," said Schroder's Mr. Howe.

Schroder is actually benefiting from the credit crunch in that it is able to find many overleveraged companies in need of cash, according to Tim Howe, a partner with the firm.

In the firm's most recent group building effort, a U.K. holding company, CAM Galaxy Group, was established to acquire marketing services companies. The firm's German fund acquired 60% to 80% of ProConcept GmbH and Kreis Agentur GmbH in Germany and C&M Werbegesellschaft in Austria. The rest is owned by management of the companies. ■

European acquisitions in the U.S.

Bidder nationality	1988	1989	1990	Total
France	7,122	5,054	5,405	16,181
Germany	1,678	586	4,405	6,669
Sweden	561	436	1,334	2,331
Italy	330	469	785	1,584
Belgium	807	133	70	1,010
Norway	10	66	273	349
Denmark	92	75	37	204

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GICs

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cause it will cost participants about 115 basis points a year.

Adding to the quandary for the plan sponsor is its legal responsibilities.

"As a fiduciary, you must maximize yields," he said. And those yields come down when a GIC-laden 401(k) plan adds competing fixed-income funds.

Plan participants have made GICs the most popular investment option, and sponsors don't want to be in the same position as some who face making up losses their participants realize from those two California insurers.

"It's a paranoia with some," said James Hiner, principal at William M. Mercer Inc., a general consulting firm.

Paranoid or not, sponsors are asking about adding balanced and U.S. agency fund options to their 401(k) plans. They realize the "guaranteed" in GICs only goes as far as the financial health of the issuer.

"Some say the unthinkable has happened, a default of an insurance carrier," said Larry Mylnechuck, executive director of the GIC Association, Lake Oswego. Ore., an organization of GIC issuers.

"A lot of plan sponsors are asking us about adding competing options, and we have to tell them, 'It might involve restructuring your GIC portfolio,' " said Steve Finegan, vice president at Morley Capital Management Inc., Lake Oswego, which handles portfolios of GICs for plan sponsors.

Restructuring could mean either shortening the GIC maturities or adding more of a cash buffer, he said. Either means lower GIC returns.

"Most contracts have some sort of language that the issuer has the right to review the contract if conditions change," said Sharon Morell, manager of GIC contract negotiations at Morley Capital.

A Morley survey of 34 large issuers indicated the reason: "When competing options exist, transfer restrictions are necessary to protect the issuer from disintermediation between the GIC fund and a competing fund," the report said. (Disintermediation means assets are withdrawn and placed in a higher paying investment.)

"Direct transfers to a competing fund would allow for risk-free interest rate arbitrage by the participants at the expense of the issuer who bears the liquidity burden," the report explained.

According to the Morley survey, if competing options are added without transfer restrictions, the issuer's risk charge to the plan sponsor would be more than twice the charge than if the participant were required to invest the GIC money elsewhere for six months before being allowed to invest it in a competing option.

"It's not so much the risk charges, as the number of companies that won't write policies," Mr. Finegan said.

According to the survey, only three of the 34 issuers would even offer a quote for a GIC if there were no transfer restrictions on a competing option; if a three-month waiting period was required, only 18 would offer quotes, even with a higher risk charge; and with a six-month period, 22 said they would offer a quote.

This lesson in economics has caught some plan sponsors by surprise, according to consultants.

"I think it's pretty clear they don't understand it," said Ken Ingham, president of Ingham & Co., a consulting firm based in Coral Gables, Fla.

"We still have some funds that thought (GICs) were completely safe," said Mercer's Mr. Hiner. "There was no allusion to the fact that the guarantee is only as good as the insurance company."

A better understanding — by sponsors and participants — of the risks and costs associated with GICs is "the critical issue of the 1990s," said Mr. Mylnechuck.

Reynolds + Reynolds' Mr. Currier said if the board decides to stay with its credit-cautious GICs, "a massive communication campaign" will be necessary to let participants know the potential risks and the steps the firm has made to ensure investments are only in high-quality GICs. ■

MONEY MOVERS

Continued from page 26

Mount Holyoke College

SOUTH HADLEY, Mass. — Mount Holyoke College hired United States Trust Co. New York, as its custodian effective July 1, according to Jan Albano, director of treasury operations.

The school sought to consolidate custodial services for its domestic and equity securities with one firm. Boston-based Bank of New England formerly handled domestic securities and Boston Safe Deposit & Trust Co. oversaw foreign securities.

Newport News Employees

NEWPORT NEWS, Va. — The $210 million Newport News Employees' Retirement Fund hired The Putnam Cos. Inc., Boston, to manage $3 million in a small-cap account.

Ronald Jones, benefits administrator, said the move followed an asset allocation study that indicated greater need for diversification.

Dahab Associates Inc., Islip, N.Y., was the consultant.

Omaha Public Power District

OMAHA — The $240 million pension fund of the Omaha Public Power District awarded $5 million to EverGreen Capital Management Inc., Omaha, for management in a value equity account.

Assets for the new hire will come from an existing manager, as yet undetermined, said Ken Fielding, vice president of corporate affairs.

Rockefeller Foundation

NEW YORK — The $2.1 billion Rockefeller Foundation fund hired a manager for a currency management account and increased the allocation for another.

Bankers Trust Co. and Windham Capital Management, both of New York, were allocated $50 million each to manage currency forward and futures contracts.

Windham was hired in 1989 to manage $5 million.

Spokane Employees

SPOKANE, Wash. — The $82 million Spokane Employees Retirement System hired three managers to manage more than $40 million.

Sirach Capital Management, Seattle, will manage $13 million in equities. Capital Consultants Inc., Portland, Ore., and Olympic Capital Management, Seattle, will manage $15 million each in fixed income, said James Bennett, director of the retirement system.

He said the equity money will come from cash, the bond money, from internally managed assets.

Merrill Lynch Capital Markets Group, Spokane. assisted in the search.

Empire

Continued from page 2

The building is under a master lease to a partnership, Empire State Building Associates, until 2075. Prudential's annual income from the lease is $3.4 million, and that is scheduled to drop to $2 million in January and to $1.7 million in 21 years. The length of the lease and the decline in income may make it hard to market the building, real estate managers and consultants said.

"The question is, 'What do you pay for a declining annuity?' " said Richard Burns, principal of Aldrich, Eastman & Waltch Inc., Boston.

Mr. Burns said likely buyers for the building would be a wealthy individual or group of individuals, possibly from Europe or the Middle East. "If it wasn't the Empire State Building, most people would take a pass," he added.

Despite these reservations, Mr. Burns added one couldn't assume his company wouldn't be interested in the property; further scrutiny is necessary to determine how attractive the deal might be.

Kenneth Campia, president of LaSalle Advisors Ltd., Chicago, said it's too early to tell if his firm would be interested, as it hasn't gathered information on the building yet. "I'm sure we'll have a chance to take a look at it," he said.

Heitman Advisory Corp., Chicago, wouldn't be interested in the building because of its age and because of concern about the New York office market, said Norman Perlmutter, chairman of Heitman Financial Services Ltd., Heitman Advisory's parent. The buyer likely will be someone attracted by the building's history and reputation, he said: "Somebody who, for some reason or other, wants to own the Empire State Building."

Paul Saint-Pierre, president of Pension Realty Advisors Inc., San Francisco, said the building most likely will attract an "emotional buyer" or someone with a strategic reason to want to own it, such as the current leaseholder.

If the price is in the neighborhood of $50 million, the income from the lease would produce a yield less than that on a passbook savings account, making the building unattractive as strictly an investment play, he said.

Still, the buyer could be a major pension fund that wants to own real estate but doesn't want to take on the risks associated with this asset class, said Stephen Roulac, managing partner of The Roulac Group of Deloitte & Touche, San Francisco. Because of the lease arrangement, the transaction would be more like buying a financial instrument secured by real estate and less like a typical real estate transaction, he said.

Said Prudential's Mr. Hoffman: "This asset is very much like a bond in terms of the safety of the income stream . . . There are certain buyers who, because of the unique character of the property and the income stream, would be interested in this type of safer, bondlike investment."

The leaseholder group, led by Peter L. Malkin, a New York attorney, reportedly is interested in buying the building outright. Mr. Hoffman declined to confirm this, adding, "Certainly we would be happy to receive an offer from Mr. Malkin." Mr. Malkin did not return calls for comment.

The leaseholder subleases the building to Empire State Building Co., which is responsible for finding tenants and operating the property. Mr. Malkin also is involved with the sublessor, as is hotel executive Harry Helmsley.

According to Mr. Roulac's book, "Modern Real Estate Investment," Prudential bought the land under the building in 1951 for $17 million and acquired title to the building in 1961 for $29 million. Prudential officials would confirm the years but not the amounts. Empire State Building Associates has a lease on the building for 114 years, dated from 1961. ■

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